Annual Audit Letter

Borough of Poole

Audit 2008/09

December 2009

audit commission

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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.

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

1 I issued an audit report including an unqualified opinion on the financial statements on 23 September 2009.

Value for money

2 My audit report of 23 September 2009 included an unqualified VFM conclusion.

Audit Fee

3 Our audit fee is out in Table 1.

Table 1 Audit fees

	Actual £	Proposed £
Financial statements and annual governance statement	141,308	141,308
Value for money	66,691	66,691
Total audit fees	207,999	207,999

Financial Health

4 We have reviewed the Council's financial standing in the light of the economic downturn and banking crisis. While the Council has not suffered impairment of the value of its investments it will need to remain vigilant and to keep its treasury management under review.

5 The Council has two significant capital developments in the pipeline the Twin Sails project and Building Schools for the Future. During the year we have kept the position under review.

Actions

6 Recommendations are shown within the body of this report and have been agreed with the Council.

Independence

7 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

8 A prior period adjustment has been disclosed in the accounts due to a policy change for pension scheme valuation from mid-market value to bid price (this had the impact of decreasing the value of your pension liability by £106,000). This does not have a material impact on the accounts and therefore does not constitute a prior period adjustment. However, the additional disclosures made in the accounts, aid the understanding of the users and therefore have not been removed.

Material weaknesses in internal control

9 I did not identify any significant weaknesses in your internal control arrangements.

International Financial Reporting Standards

10 Local authorities are expected to comply fully with the International Financial Reporting Standards (IFRS) in 2010/11. This has significant implications for the Council in terms of restating a number of complicated features of its accounts such as leases and plant, property and equipment to meet the new requirements.

11 Council staff have made good progress in identifying what is required to comply with IFRS and preparing a skeleton set of accounts. However, it is a major undertaking and we recommend that periodic reports are made to the Audit Committee showing progress against the project plan.

Recommendation	
R1	The Audit Committee should receive progress reports on implementing International reporting standards.

Financial Health

12 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. There are further challenges for policy priorities where patterns of demand for services are changing.

13 This impacts on the audit and as part of my responsibility I have reflected on the wider environment, specific issues and risks. Whilst the Council has not suffered impairment of the value of its investments it will need to remain vigilant and to keep its treasury management under review. However, the council's medium term financial plan reflects a prudent approach to the forthcoming three years and recognises the significant impact of reduced income and increased expenditure.

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

14 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, with 4 being the highest and level 1 representing a failure to meet the minimum requirements set at level 2.

15 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.

16 The Council's use of resources theme scores are shown in Table 2. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

Table 2 Use of resources theme scores

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

17 The Council has continued to perform soundly, and is continuing to seek improvements to further strengthen arrangements.

VFM Conclusion

18 I assessed your arrangements for securing economy, efficiency and effectiveness in your use of resources, against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will select annually, which of the use of resources KLOEs 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 1.

19 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Closing remarks

20 This letter has been discussed and agreed with the Chief Executive. I will present this letter at the Audit Committee on 7 January 2010 and will provide copies to all members for comment prior to the 31 December 2009.

21 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
Annual Governance Report	September 2009

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

Simon Garlick

District Auditor

December 2009

Appendix 1 – Use of resources key findings and conclusions

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

Managing finances

Theme score 2
Key findings and conclusions for theme 1
The Council has integrated financial and service planning on a medium term basis although it does not prepare an annual corporate plan to update its priorities. It has consulted local communities in service planning and has involved them appropriately in financial planning. It has a good track record of managing spending within budget and is financially sound in the medium term. Improvements to the risk management process need to operate fully to reduce the Council's vulnerability to unexpected events. The corporate approach to the allocation of resources is improving through more robust medium term planning, but the Council needs to demonstrate more consistently that it takes into account the service benefits in this process and should make greater use of whole of life costing. Measures have been adopted to achieve savings in addition to the national targets The Council's annual budget setting process (along with Medium Term Financial Planning) requires efficiencies and savings to be identified on an ongoing basis. The budget monitoring and forecasting system is sound with Cabinet receiving monthly reports with actions to address any significant variances being clearly set out. However, financial monitoring is not integrated with performance monitoring which is only on a quarterly basis. The Council uses standard template for reports including observations from statutory officers and reference to risk assessments and equality and diversity issues. Financial statements are produced after very thorough and well documented procedures. The statements are well supported by working papers and explanations from staff in the isolated instances where this was necessary. No significant errors have been found that impact upon the readers understanding of the Council's financial performance and financial position. The Council does not currently provide overall annual assessments of its performance. It does prepare financial summaries after the audit is completed of the full statements and this is included on the website.

Appendix 1 – Use of resources key findings and conclusions

KLOE 1.1 (financial planning) **Score** **VFM criterion met**	 **2** **Yes**
Key findings and conclusions	
The Council has integrated financial planning with strategic and service planning on a medium term basis. It prepares an annual Corporate Plan to update its priorities and objectives, which is the basis for linking financial and service planning. Although the Corporate Plan was not formally updated for 2008/09, activities and actions underpinning corporate objectives and priorities were revisited in the year to reflect changes in the external environment. The Council is in the throes of introducing a new timetable to ensure that financial and service planning are better integrated but this will not be in full operation until 2009/2010. It has consulted its local communities in service planning and has taken account the feedback received. However, there is scope to improve the involvement of local communities in financial planning or in some aspects of its service planning. The Council has a good track record of managing its spending within budget and is financially sound in the medium term. As with all local authorities, pressures from the international banking crisis and resultant financial funding levels in future years will prove to be a serious challenge. The Council should ensure improvements to the risk management process operate throughout 2009/10 and beyond to reduce the Council's vulnerability to the impact of unexpected events and future financial pressures. The Council does exhibit collective responsibility for financial management with a leading member providing robust challenge of its financial plans.	
KLOE 1.2 (understanding costs and achieving efficiencies) **Score** **VFM criterion met**	 **2** **Yes**
Key findings and conclusions	
The corporate approach to understanding costs is improving through more robust medium term planning and, for the future, the development of VFM profiling tools and techniques but the Council needs to demonstrate more consistently that it takes into account the service benefits in this process. Whole of life costing is used for major capital and revenue projects which are appraised using a standard template. Clear criteria are established for the evaluation of capital projects but this could be improved by greater consideration of social, economic and environmental factors. This methodology/criteria should also be applied to significant revenue commitments. The Council has adopted measures to achieve savings in additional to the national targets.	

KLOE 1.3 (financial reporting) **Score** **VFM criterion met**	 **2** **Yes**
Key findings and conclusions	
The budget monitoring and forecasting systems are sound with Cabinet receiving monthly reports on financial performance. The information contained within these reports is consistent with the year end financial statements. The financial monitoring is not integrated with performance monitoring and service monitoring is less frequent with only quarterly reports being presented to Cabinet. Any significant variances from budgeted performance are identified and explained in the monthly reports to Cabinet with actions to address them clearly set out. The Council uses standard templates for reports which include requirements for observations from statutory officers ie S151 officer and MO and reference to risk assessments and equality and diversity issues. Financial statements are produced after very thorough and well documented procedures. The accounts are well supported by working papers and explanations from staff in the isolated instances where this was necessary. No significant errors have been found that impact upon the readers understanding of the Council's financial performance and financial position. The Council does not currently provide overall annual assessments of its performance. It does prepare financial summaries after the audit is completed of the full statements and this is included on the website.	

Theme 2: Governing the business

Theme score 2	
Key findings and conclusions for theme 2	
Individual services can demonstrate good understanding of needs and appropriate commissioning. The Council has comprehensive corporate guidance on commissioning and procurement processes, but could do more to adopt modern practices such as category management and e-procurement. The Council makes use of procurement partnership arrangements to deliver value for money. The Council has a good track record for producing and utilising accurate and reliable data. Service unit arrangements for collecting, recording and reporting data are recorded in documented policies and procedures. However, the Council does not have a robust corporate framework for monitoring data quality across the organisation. The Council has fit-for-purpose information to support its decision-making processes and there are arrangements in place for ensuring compliance with statutory information governance requirements. Access to the Council's business systems is controlled and physically secure. The Council monitors performance against priorities, with regular reports on these to Cabinet and the senior management. However, the Council has not integrated the reporting of financial and performance information. The Council has a robust constitution and ethical framework. A separate Audit Committee was established at the start of the year and replaces the former Service Provision Scrutiny and Audit Committee. The Council also has codes of conduct and arrangements for monitoring standards through the work of the Standards Committee. The Council does however recognise the need to improve partnership governance arrangements. Some basic risk management processes were in place in 2008/09 which were strengthened in the latter part of the year. Further work is required to better embed risk management processes across the Council. Reports to members included the assessment of risk as a matter of routine. There is an effective strategy to counter fraud and corruption, and a clear complaints process. The Council has sound internal control arrangements, which are kept under regular review.	

KLOE 2.1 (commissioning and procurement) **Score** **VFM criterion met**	 **2** **Yes**
Key findings and conclusions	
The Council operates a highly devolved budget system that places responsibility for commissioning decisions close to service users. The balance between central and devolved purchasing decisions has been under review for the past year, but progress has been slow. There is at present a small central purchasing team that provides policy support and advice for services, as well as some direct central contract management. The Council has comprehensive corporate guidance on commissioning and procurement processes that includes requirements on tendering processes. Within this devolved system, individual services can demonstrate good understanding of needs (eg Children's services) and appropriate commissioning responses. Managers are able to demonstrate effective consultation with service users and staff and are able to demonstrate they understand the appropriate markets. This has resulted in new service development and demonstrable efficiency savings. Managers have also shown they can manage contracts effectively with examples of contract termination for failure to deliver, but commissioning skills are variable across the Council. The Council makes use of a range of partnership arrangements that support improved value for money, for example the Dorset purchasing consortium. However the council does not have the capacity or systems to ensure that value for money is being consistently delivered across all services.	

KLOE 2.2 (data quality and use of information)	
Score	**2**
VFM criterion met	**Yes**

Key findings and conclusions

The Council has a good track record for producing and using accurate and reliable data. Service units have well-established arrangements for collecting, recording and reporting data, which are recorded in documented policies and procedures. Staff have the competencies appropriate to their role in securing data quality and receive appropriate training. There is a Dorset-wide protocol for sharing data among public sector bodies. The Council has taken initiatives to understand partners' data flows and data requirement, in relation to the Local Area Agreement. However, corporate governance arrangements for data quality could be improved. The Council does not have a data quality strategy or a robust framework for monitoring the quality of data across the organisation or partnership data.

The Council provides fit-for-purpose information to support the decision-making process. Business systems used to collect and report are of proven reliability, and there is limited data transfer to local systems, such as spreadsheets, for manual manipulation. The formats in which information is presented have been extended through the implementation of a new corporate performance management information system, which is also used to generate reports for the LSP. However, systematic reporting on the quality of the data used to produce reports is limited. The Council does not hold comprehensive diversity and equality information for some of its services.

There are arrangements in place for ensuring data quality and compliance with statutory requirements. Access to the Council's business systems is controlled and physically secure. The Council's has security policies and guidance in place, although some of these are not up to date. The Council has arrangements in place for record retention and for compliance with the Freedom of Information Act and the Data Protection Act and other statutory and national policy requirements, although there are inconsistencies in the application of these arrangements across the organisation. The Council has a business continuity plan, which covers business critical systems and is tested regularly. The Council has risk-assessed its arrangements for information governance and is addressing identified weaknesses. The Council monitors performance against priorities. There are corporate targets for managing performance, including partnerships, which support partnership, corporate and service objectives. Cabinet and the senior management team receive regular progress reports on major strategies and major projects. The Council uses a variety of information to support its decision-making processes, such as the results of regular consultation with stakeholders, internal and external research and needs analyses. Arrangements for performance management include the regular monitoring of service unit business plans, and of action plans designed to implement strategies or remedy under-performance. However, there are inconsistencies in service units' approach to performance management, and benchmarking is under-developed in some areas. The Council has not integrated the reporting of financial and performance information, and there is scope for improving the reporting of VFM issues. VFM profiling exercises using comparative data are being undertaken in 2009 to better understand, demonstrate and influence achievement of Value for Money.

KLOE 2.3 (good governance) **Score** **VFM criterion met**	 **2** **Yes**
Key findings and conclusions	
The Council has implemented a sound basis for applying robust corporate governance through its constitution and ethical framework. It has made provision to provide both members and officers with training required to fulfil their responsibilities. Ready access to the Council's standards is provided through both the intranet and public website. The Council's leadership can demonstrate that it has a vision on what it wants to achieve for the local community. It has engaged with elements of the community, but the Council should better evidence what influence this has had on the Council's strategies. Clear strategic priorities have been derived from its vision and it monitors performance against those priorities. The Council has established a sound framework for ethical governance based upon codes of conduct and standards monitoring. The Council works extensively with a range of partners and continues to seek to ways to work in partnership with organisations and individuals. The Council recognises the need to improve governance arrangements with its partners.	
KLOE 2.4 (risk management and internal control) **Score** **VFM criterion met**	 **2** **Yes**
Key findings and conclusions	
The Council did not have an embedded and fully effective risk management structure throughout 2008/09 although the arrangements showed rapid development in the latter part of the year. The Audit Committee has specific responsibility for overseeing the Council's risk management process (formally the responsibility of the Service Provision Scrutiny and Audit Committee). Standard reporting to members relating to decision making does include consideration of risk as a matter of routine. There is an effective strategy to counter the risk of fraud and corruption. Officers and members are well informed of the arrangements and the intranet and website give ready access to the key strategies and policies. The complaints process clearly sets out how informants can bring issues of concern to the attention of management. The Council is a full participant in the NFI initiative and internal audit give full consideration to counter fraud and corruption work in its annual plans. The Council has implemented sound internal control arrangements. It reviews and updates its constitution on a regular basis and has established an appropriate assurance framework to support its annual governance statement. Internal audit work provides annual assurance about the operation of all key controls and it reports regularly to the Audit Committee.	

Theme 3: Managing resources

Theme score 2	
Key findings and conclusions for theme 3	
Through its adopted Core Strategy and Corporate Plan, the Council is taking a positive approach to carbon reduction and to tackling local environmental challenges, such as flooding. It has a plan for reducing carbon emissions and is developing an overarching strategy for the management of natural resources. The Council has piloted some innovative practices in environmental management. The Council has taken some initiatives in support of sustainable procurement, but does not take a systematic approach to this. The Council's service plans are linked to environmental initiatives in the Corporate Plan but do not address wider environmental resource management issues. The Council is carrying out some environmental housekeeping initiatives (for example, internal recycling and water reduction) but does not systematically monitor performance in these areas. The Council takes a strategic approach to asset management, which has resulted in positive social, environmental and economic benefits for the borough, and VFM gains. It has a Corporate Asset Management Plan and asset management plans for education, housing and transport. A cross-service, corporate Asset Management Group co-ordinates asset management planning across the organisation, and there is active member involvement in asset management. However, the Council has not completed comprehensive suitability assessments for all its properties. The Council has an effective system for prioritising capital expenditure and applies options appraisal and whole life costing to large projects. However, the performance management of property and the benchmarking of property assets are under-developed. The Council has a good record for partnership and community working in relation to property assets.	

KLOE 3.1 (use of natural resources)	
Score	**2**
VFM criterion met	**Yes**

Key findings and conclusions

The Council is developing a strategic approach to managing natural resources. Through its adopted Core Strategy and Corporate Plan, the Council has adopted a positive approach to carbon reduction and to tackling the substantial challenges that climate change presents – for example it is working closely with other agencies to develop a long-term flood defence solution. The Council's Corporate Plan includes several initiatives to protect the environment and reduce the Council's carbon footprint. The Council is developing an overarching strategy for the management of natural resources. It has baseline information on energy use and is collecting baseline data on internal waste management, recycling, water use, the bio-diversity of its own landholdings, and risks in potential high impact services such as highways, leisure, and cleansing. The Council has arrangements in place for assessing compliance with environmental legal requirements across some of its operations.

The Council has made progress in managing its use of natural resources. It has a corporate priority to address carbon reduction and climate change and a target to reduce carbon dioxide emissions by 25 per cent by 2013. It has recently produced a plan to tackle carbon reduction and is developing its monitoring of energy use. However, it has made limited progress in reducing energy consumption to date. The Council has piloted some innovative practices in managing its landscape displays. For example, it has introduced plants that require less water, fewer fertilizers and less compost. This cuts down the environmental impact resources used and the number of lorry movements to water the displays. It has also introduced a dual litter bin scheme into the town centre so that it can recycle more of the street litter that it collects. The Council is evaluating several innovative projects for managing natural resources, such as using the heat from the local crematorium to heat its offices.

The Council can demonstrate some initiatives in support of sustainable procurement, but does take a systematic approach to this. It has produced guidance on this for its services and schools but does not monitor the effectiveness of procurement in reducing the Council's environmental impact. Initiatives in the Corporate Plan to protect the environment and reduce the Council's carbon footprint are linked with service plans. However, the Council's published service plans do not address wider environmental resource management. In particular, the Council does not systematically integrate environmental resource management into services that have a high impact on the environment such as highways, and street lighting. But it does employ a compliance officer at its depot to ensure environmental legal compliance. The Council can demonstrate some environmental housekeeping initiatives but does not take a co-ordinated approach to these. For example, it carries out some internal recycling and water reduction activities, but does not systematically monitor performance in these areas.

KLOE 3.2 (strategic asset management) **Score** **VFM criterion met**	 **2** **Yes**
Key findings and conclusions	
The Council takes a strategic approach to asset management but there is scope for strengthening this. The Council can demonstrate that asset management has delivered positive social, environmental and economic benefits for the borough, in line with priorities in the community strategy and corporate plan. The Council has a Corporate Asset Management Plan and asset management plans for education, housing and transport. Asset management planning linked to service planning and the capital strategy supports delivery of asset management plan. The Council has a cross-service, corporate Asset Management Group which co-ordinates asset management planning across the organisation. There is active member involvement in asset management. However, some corporate arrangements for asset management are under-developed, with services retaining responsibilities for some assets and property functions. The Council has not completed comprehensive suitability assessments for all its properties and does not have an accommodation strategy. The links between the asset management plan and financial plans need strengthening. The Council manages its property assets to provide value for money, but some arrangements are under-developed. Effective asset management has delivered VFM gains in terms of improvements and enhancements to buildings and facilities; reductions in health and safety risks; and improved access to buildings. The Council has an effective system for prioritising capital expenditure and applies options appraisal and whole life costing to large projects. The Council holds extensive data on its properties but this is held in 23 separate databases, rather an integrated system. The performance management of property assets is weak, and the Council does not benchmark property performance. The Council has a good record for partnership and community working in relation to property assets. It shares buildings with the PCT and third sector bodies. It has developed multi agency children's centres and extended schools. It is a joint partner with Bournemouth Council on a £150 million Building Schools for the Future programme. It also undertakes some collaborative strategic asset management planning with Dorset CC and Bournemouth Council – for example in respect of a proposed recycling centre and traffic control centre – but there is scope for extending this.	
KLOE 3.3 (workforce planning) **Score**	 **Not assessed in 2008/09**

The Audit Commission

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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.

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