

Annual Audit Letter

Cherwell District Council

Audit 2008/09

November 2009

DRAFT

Contents

Key messages	3
Financial statements and annual governance statement	5
Value for money use of resources	7
Closing remarks	9
Appendix 1 – Use of resources key findings and conclusions	10

DRAFT

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 My work on your financial statements is complete and I gave an unqualified opinion on 25 September 2009.

Financial Statements

- 2 The accounts adopted by the Accounts, Audit and Risk Committee on 24 June 2009 were made available for audit supported by detailed working papers. There were only minor presentational errors in the statements adopted.

Value for money

- 3 My work on your scored use of resources is complete, and I am pleased to confirm that there are no areas where you do not meet expected standards. I therefore gave an unqualified value for money conclusion on 25 September 2009.

Economic downturn

- 4 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 was 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.
- 5 This impacts on the audit and as part of my responsibility, I have reflected on the wider environment, specific issues and risks and the Council's response.

My work Audit Fees

- 6 My audit is complete and I can confirm that I do not propose to issue a supplementary fee letter.

Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£64,349	£64,349	£0
Value for money	£43,876	£43,876	£0
Total audit fees	£108,225	£108,225	£0

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.

DRAFT

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 There were no errors in the financial statements for which I requested an audit adjustment. We only identified minor presentational errors which have been amended in the final set of accounts.
 - 9 As part of the Council's own supervisory review in July, staff identified three classification errors: £952,000 within the analysis of the debtors note; £196,000 within the analysis of the creditors note; and £72,000 mis-classification between National non-Domestic Rates (NDR) and Revenue Support Grant (RSG) on the Income and Expenditure Account. These have been adjusted in the final version of the accounts.
-

Material weaknesses in internal control

- 10 I did not identify any significant weaknesses in your internal control arrangements. However, the Council has included a significant internal control weakness in its Annual Governance Statement when an issue was identified in relation to IT back up arrangements. Subsequent investigations highlighted a number of control issues around the Council's IT processes including disaster recovery back up arrangements. The Council implemented a full review and implemented measures to safeguard their information.
-

Accounting Practice and financial reporting

- 11 I considered the qualitative aspects of your financial reporting. The accounts production was smooth and supported by good quality working papers.
-

Economic Downturn

- 12 The Council had invested £6.5m at the end of March 2009 in Glitner Icelandic bank. The latest position is that, as the Council currently has preferential credit status, it expects to recover 100 percent of this balance. However, this status is subject to challenged. Whilst the money is currently deemed at risk, the Council has not included assumptions on the likelihood of repayment in its draft budget. In light of the Icelandic banks, the Council has reviewed its treasury management policies and has included actions in the medium term financial strategy.
-

DRAFT

Value for money use of resources

I considered how well the Cherwell District 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 Cherwell District 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

- 13 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.
- 14 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.
- 15 The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	3

- 16 The Council manages its finances effectively to deliver value for money in its services for its stakeholders. Finances are planned over the medium to long term to meet strategic priorities and to ensure that the Council keeps sound financial health. The Medium Term Financial Strategy is regularly updated to keep it in line with changes in the internal and external environment that affect the operation of the Council. Value for Money Reviews are being constantly undertaken to find areas of potential economies and efficiencies and the effectiveness of services is assessed through consultation with users. Partnerships are being used effectively to ensure that finances and other resources deliver value for money. The Council produces budget monitoring and forecasting information on a timely basis which ensures that decision makers can

make appropriate decisions throughout the various levels of the organisation with the most relevant information to hand. The authority has restructured its finance team over the last two years and the accounts production is smooth and supported by good quality working papers.

- 17** The Council's procurement and contract management infrastructure and functions have improved strongly. There is a clear understanding of how the commissioning and procurement approach enables delivery of corporate priorities and is aligned to the Council's VFM programme. The focus is on partnership working to deliver improved outcomes for local people, based on local need. The Council has made substantial data quality and management information improvements over the past year. This supports decision making and performance management thus helping deliver priorities and improvements for local people. The Council promotes and demonstrates the values of good governance. The Council manages its own risks and maintains a solid system of internal control. There is active risk management embedded throughout all levels of the organisation and promoted and monitored in the Council's significant partnerships.
- 18** The Council is effective in planning and developing its workforce to achieve its goals. It identifies the skills it needs and invests significantly in workforce development. This has successfully enabled the Council to adapt its culture and skill its workforce to adopt different ways of working. The Council has successfully delivered its corporate restructuring. This has been done in partnership with the workforce and the union, who have worked together to align the organisation effectively behind corporate objectives. The Council is now entering its next phase of change. It is considering how radically different it needs to be as an organisation to continue to deliver improved VFM within the context of shared services and outsourcing arrangements. Within this context the Council is ensuring it encourages the values and behaviours required to support the staff and the organisation through continued change.

VFM Conclusion

- 19** 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. My conclusions on each of the areas are set out in Appendix 1.
- 20** I issued an unqualified conclusion stating that the Cherwell District Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Closing remarks

- 21 I have discussed and agreed this letter with the Chief Executive and the Head of Finance. I will present this letter at the Accounts, Audit and Risk Committee on 14 December 2009 and will provide copies to all committee members.
- 22 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Cherwell District Council during the year.

Table 3

Report	Date issued
Audit Plan	May 2008
Opinion Plan	May 2009
Annual Governance Report	September 2009
Annual Audit Letter	November 2009

-
- 23 Cherwell District 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.

Maria Grindley
District Auditor
November 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	3
Key findings and conclusions	
The Council has sound arrangements across all aspects of managing finances and these are delivering outcomes for local people.	
KLOE 1.1 (financial planning)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
Financial planning at Cherwell District Council is effectively integrated. It links to strategic and corporate planning through the medium term financial strategy (MTFS) and the community plan. The Council has an effective long-term financial strategy to support delivery of its strategic objectives and priorities. The Council effectively consults with stakeholder to prioritise spending decisions. The Council manages its spending well. The MTFS has now been updated to reflect the current external challenges. These have been revised so that the Council can carry on meeting their service requirements and strategic priorities.	
The Council is creating an environment of sound financial governance and leadership. Members provide scrutiny to the financial plans of the Council and this has lead to the income in the 2009/10 budget increasing by £0.5m to £6.3m. The Council promotes financial management in its leadership and recognises and values financial skills	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council has a sound understanding of its costs evidenced by its value for money reviews which have provided information to assist the Council's strategic decision making. This has led to a reduction of costs and improved performance. The Council has successfully achieved efficiencies in its high cost areas. The net revenue budget has reduced from £23.5m in 2007/2008 to £20m in 2009/2010: a reduction of £3.5m over the period. The Council co-ordinates its financial planning. This helps the Council to understand the value for money implications of its spending, for example through the potential impact of capital spending over the medium to long term on council tax. The Council compares its costs to other authorities. The Council recognises that it must drive efficiencies and rationalisation of services through its VFM processes. The one stop shop is an example of this and has successfully created better customer access and also delivered cost efficiencies</p>	
<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council's internal financial monitoring is relevant, understandable and accruals based. It provides clear links between the budget, in year forecasts and actual year end position. The dashboard and the performance management framework ensure that the financial and non-financial performance is reported and effectively considered together. Budget holders are able to access financial and monitoring information when they need it.</p> <p>For 2008/09, the Council had produced a thorough and comprehensive closedown plan. The accounts were properly approved by the Accounts, Audit and Risk Committee and published by the due date on the Council's website. The Council's working papers to support the accounts are clear and the have a strong focus on SORP compliance. Improved member involvement has continued again this year. This was shown through the members challenging the process of the accounts and through the continuation of a specific accounts panel. The Council published its Annual Report setting out the key achievements during the year for both the Council and its key partners.</p>	

Governing the business

Theme score	3
Key findings and conclusions	
The Council has sound arrangements across all aspects of governing the business and these are delivering good outcomes for local people.	
KLOE 2.1 (commissioning and procurement)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council’s commissioning is shaped by a clear vision of improved services. Effective procurement and contract management has directly supported improved service provision. An example is the successful approach to its commissioning, contract and project management of the £27m sports centre modernisation programme. The Council engages effectively with a range of stakeholders and service users to plan and commission services. It is building on its partnerships to deliver sustainable local outcomes and efficiencies and engage with Small and Medium-sized Enterprises (SMEs).</p> <p>The Council has a strong record of enabling access to services through technology. It has embraced e-procurement and launched an interactive guide for procurement and contract management to raise awareness across the organisation. The Council engages with its communities in the design of services, eg the One Stop Shop, where it undertook Equality Impact Assessments as part of the design. It is also working effectively and innovatively with Oxon PCT in the development of a ‘super clinic’ in Banbury, delivering improved outcomes for local people and benefits to partners. The Council consults effectively with users, SMEs and partners and has a more informed understanding of the supply market.</p> <p>The Council’s procurement and contract management functions have improved strongly. Its rigorous value for money approach and service planning process link effectively to the Procurement Forward Plan. In 08/09 it invested £200k in additional procurement capacity which has secured corporate savings of £309k in this financial year. The procurement discipline clearly supports the delivery of the Council’s wider objectives. It has supported the reduction in net costs over recent years, enabling resources to be reallocated to front line services, delivering demonstrable beneficial outcomes to the community. Although the Council does not have an up to date procurement strategy, it is procuring strategically.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.2 (data quality and use of information)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council has an ongoing action plan to improve data quality and information management. Governance, accountability and leadership arrangements have been improved and data management arrangements are integrated into the service and financial planning processes. The Council demonstrates a proactive use of information to jointly determine local priorities with partners. There are active partnership approaches across the service areas ie with the Oxfordshire PCT Joint Public Health Strategy.</p> <p>The Council produces fit-for-purpose information to effectively support members and officer's decision making. The Council's strategic management reports, the balanced score card and dashboard are clear and well structured, enabling analysis and interrogation of the information. The Council consults staff and stakeholders to ensure priorities are delivered and met. The Customer Contact Centre filters feedback to services, to improve responsiveness and these are reviewed regularly by portfolio holders and staff. Issues are flagged and managed at corporate level. The Council incorporates good practice standards into its policies and procedures to safeguard its management information. The Council demonstrates a risk management culture.</p>	
<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council has a very clear focus on its priorities which drive everything it does. The priorities are set out in the Corporate Plan and Improvement Strategy 2007 to 2012 and these are used strongly to guide planning in the Service and Financial Planning framework. The Council provides effective governance: members and officers are clear about their roles and responsibilities. The council has an ethical framework in place and promotes ethical culture. The Executive sets firm policy objectives for the Council for which officers are charged with delivery and there is an appropriate level of challenge between councillors and senior managers. This view is supported by opposition councillors who also feel included within a bipartisan and inclusive process. The Council's response to the Eco town proposal and Horton Hospital services at threat are both examples of the clarity in approach. Councillors and staff work hard to achieve the best outcomes for the community.</p> <p>The Council is a highly effective leader of partnership working locally. It has been effective in securing the involvement of all partners. Membership of the Cherwell Community Planning Partnership (LSP) is inclusive and the Council has taken a proactive approach to the governance and development of this partnership. The Council, partners and the community are clear about the ambitions for the area.</p>	

Appendix 1 – Use of resources key findings and conclusions

KLOE 2.4 (risk management and internal control)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<p>Risk Management is comprehensive and embedded throughout the council. The Council clearly understands the strategic risks to the delivery of its objectives and these are managed and regularly reviewed by the Executive and senior managers. Risk management is integral to the decision making process. Members recognise the importance of risk management. Partnership risks are on the risk register and risks around partnerships are monitored and reported through the partnership annual governance report.</p> <p>The Council has strong counter fraud and corruption arrangements. This is shown most in the work performed by the benefits service. In 2008/09 they had 12 successful prosecutions where claimants were fraudulently claiming benefits. The council has a sound system of internal control. The Accounts, Audit and Risk Committee delivers the core functions as required by CIPFA and demonstrated a good challenge on the accounts. Members of the Accounts, Audit and Risk Committee set up a new IFRS steering group, again demonstrating member involvement and strengthening the system of internal control.</p>	

Appendix 1 – Use of resources key findings and conclusions

Managing resources

Theme score - only 3.3 relevant for 2008/09	3
Key findings and conclusions	
The Council has sound arrangements to develop and support a skilled workforce and these outcomes.	
KLOE 3.3 (workforce planning)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council is effective in planning and developing its workforce to achieve its goals. It identifies the skills it needs and invests significantly in workforce development. This has successfully enabled the Council to adapt its culture and skill its workforce to adopt different ways of working. The Council has successfully delivered its corporate restructuring. This has been done in partnership with the workforce and the union, who have worked together to align the organisation effectively behind corporate objectives. The Council is now entering its next phase of change. It is considering how radically different it needs to be as an organisation to continue to deliver improved VFM within the context of shared services and outsourcing arrangements. This builds on the recent outsourcing arrangements for Internal Audit and transactional elements of the Revenue and Benefits functions.</p> <p>The Council has successfully engaged and supported staff during the change process. It has delivered its corporate restructuring in partnership with the workforce and the union, who have worked together to align the organisation effectively behind corporate objectives. It has a good track record of consultation and the staff consultation group has been central to building and delivering organisational culture.</p>	