



**Name of meeting:** Corporate Governance and Audit Committee

**Date:** 25 November 2010

**Title of report:** Annual Audit Letter - 2009/10

Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	No
Is it in the <a href="#">Council's Forward Plan</a> ?	No
Is it eligible for "call in" by <a href="#">Scrutiny</a> ?	No, as it is for information only
Cabinet member <a href="#">portfolio</a>	Corporate (Councillors Khan and Pandor)

**Electoral [wards](#) affected:** All

**Ward councillors consulted:** Not applicable

**Public or private:** Public

## 1. Purpose of report

To draw the Committee's attention to the Annual Audit Letter to the Council from the Audit Commission.

## 2. Key points

The Audit Commission summarises evidence on the management and direction of the Council on an annual basis. Its letter reporting on the position at the end of 2009 is attached and will be considered by Cabinet in due course and subsequently circulated to all Members of the Council.

The letter details key messages covering:-

### **Audit Opinion and Financial Statements**

- The Audit Commission issued an unqualified opinion to the Committee on 29 September 2010, confirming the Council had prepared the accounts to a high standard without significant errors or omissions.

### **Value for Money**

- The Audit Commission had issued an unqualified opinion on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources, concluding that the Council had strengthened its arrangements in some areas, and had robust financial management arrangements to help it manage the impact of the Government's public spending cuts.

### **Current and Future Challenges**

- The Audit Commission's report highlights the work of the Innovation and Efficiency programme which has given the Council a head start in addressing the current and future financial challenges facing all public bodies as a result of the impact of the cuts in public spending, and refers to the action of the Council in restructuring its senior management.

The report is submitted for information and comment.

### **3. Implications for the Council**

Executive Management Group are working with the Cabinet to take forward the recommendations in the letter

### **4. Consultees and their opinions**

The letter has been discussed between the Council's Directors and Audit Commission Audit Manager.

### **5. Next steps**

The recommendations in the letter will be implemented by Executive Management Group in conjunction with the Cabinet.

### **6. Officer recommendations and reasons**

That the content of the Annual Audit Letter be noted.

### **7. Cabinet portfolio holder recommendation**

The Cabinet portfolio holders support this approach.

### **8. Contact officer and relevant papers**

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Background Papers: Annual Audit Letter from the Audit Commission as attached.

# Annual Audit Letter

**Kirklees Council**

**Audit 2009/10**

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**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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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two responsibilities:**

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 9).**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## **Audit opinion and financial statements**

**1** I issued an unqualified opinion on the Council's financial statements on 29 September 2010. My work confirmed the Council prepared the accounts to a high standard without significant errors or omissions.

## **Value for money**

**2** I issued an unqualified opinion on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources.

**3** My work confirmed the Council had strengthened its arrangements in some areas, and had robust financial management arrangements to help it manage the impact of the government's public spending cuts.

## **Current and future challenges**

**4** The most significant challenge facing the Council, and all public bodies, is managing the impact of the cuts in public spending. The Coalition government has announced cuts in revenue funding to local government of 26% in real terms over the next four years.

**5** The cuts in revenue and capital funding will impact on all areas of the Council and make it critical that the Council successfully delivers its Innovation & Efficiency programme. This programme is at the heart of the Council's plans to deliver service improvements with fewer resources.

**6** The Council's work on the Innovation & Efficiency programme over the past year has given it a head start in addressing the current and future financial challenges. The challenge to deliver the programme successfully is

formidable and will require officers and members to make tough decisions on the 2011/12 budget and the medium term financial strategy. The range of changes proposed mean an increased importance on the robust and successful operation of the Council's performance management, financial management and risk management arrangements through the period of significant change.

7 The Council has already restructured its senior management and reduced the number of Directors and Assistant Directors, and is now working to reduce the next level of senior managers. It will need to ensure that, in the transitional period before the new arrangements are fully operational, the key management and service delivery roles continue to be delivered.

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# 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.**

**I gave an unqualified opinion on the Council's 2009/10 financial statements on 29 September 2010.**

## Overall conclusion from the audit

**8** My audit of the financial statements progressed well. My work confirmed the Council prepared the statements to a high standard without significant errors or omissions. Officers produced detailed and accurate working papers, and responded promptly and professionally to my questions and the issues I raised during my audit. There were four minor errors in the draft financial statements presented for audit. I accepted the Council's response to these issues, and as they were not material, issued an unqualified opinion on the financial statements.

## Significant weaknesses in internal control

**9** There are no new internal control weaknesses to report from my work in 2009/10.

**10** Last year I reported two weaknesses, relating to the controls over journal transfers and the accounting controls in Kirklees Neighbourhood Housing (KNH). I have followed up both of these issues this year.

**11** For the controls over journal transfers the Council has reported that it does not intend to strengthen the controls and that it considers the risk is minimal and does not warrant extra authorisation controls. My work on the 2009/10 financial statements confirmed there were no material mis-statements from journal transfers. My recommendations from 2008/09 are still valid and I am not making any new recommendations this year.

**12** My work on the accounting controls in KNH has confirmed there is only a small risk of material mis-statement in the financial statements, and my audit did not uncover any such mis-statements. The Council's Internal Audit team are carrying out a routine audit of the KNH systems and controls during 2010/11. This work will assess if the controls provide the Council with the more detailed assurance it requires about specific transactions.

## International Financial Reporting Standards

**13** The Council will need to produce its 2010/11 financial statements in line with the requirements of International Financial Reporting Standards (IFRS). This will be the first year of these requirements which requires the Council to change its accounting policies in several areas, and recalculate the entries in the financial statements. The transition from UK to international standards presents significant challenges for all councils.

**14** I reported last year the Council had made reasonable progress in implementing the requirements of IFRS. In the last year the progress has continued steadily and officers have approached the work competently and diligently. The 2009/10 financial statements included a requirement that the Council accounted for its Private Finance Initiative schemes under IFRS. My audit of the 2009/10 statements confirmed the Council had accounted for these schemes correctly and in line with the international standards, and the work did not identify any major issues. This work provides a good basis for the continued transition work in 2010/11.

**15** The Audit Commission has carried out regular surveys of councils' preparations for IFRS implementation, and has issued regular reports during 2010. The latest report issued in October 2010 sets out the challenges for all councils:

- Restate the 2009/10 accounts for IFRS by the end of December 2010.
- Produce 2010/11 skeleton accounts including disclosure notes.
- Comply with the requirements of component accounting, lease accounting and employee benefits.
- Involve audit committees to ensure they can fulfil their role and challenge the implementation progress.

**16** I have held regular progress meetings with finance officers through 2010, and these will continue as the implementation progresses. Officers are doubtful that they will now be able to meet their original target of producing restated 2009/10 accounts by the end of December 2010, primarily because not all the national guidance has been issued. Officers are fully aware of the extent of the task to produce the IFRS compliant accounts, and of the importance of good project planning to deliver what is required.

**17** Officer communication on IFRS with the Council's Corporate Governance & Audit Committee can be improved. The Committee, as part of its responsibilities for the Council's accounting and financial control, has the key role in ensuring that IFRS implementation is on track. The Committee have received only one progress report, and as this was an Appendix to another report, did not discuss the IFRS related content. It should receive more regular reports in the future.

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and gave an unqualified value for money (VFM) conclusion on 29 September 2010.**

## 2009/10 use of resources assessments

**18** The government announcement in May 2010 that work on CAA would stop with immediate effect meant that:

- my use of resources assessments also stopped, and
- I would not be issuing scores for the 2010/11 work carried out.

**19** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

## VFM conclusion

**20** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission.

**21** I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

**22** A summary of my findings is presented in the table on page 7.

Criteria	Adequate arrangements?
<i>Managing finances</i>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<i>Governing the business</i>	
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
<i>Managing resources</i>	
Strategic asset management	Yes
Workforce	Yes

### Managing finances

**23** The Council has maintained its robust financial planning and management arrangements. They have used sophisticated analysis in considering the impact on the medium term financial strategy from changes in government funding across all such funded areas. The Council has developed its understanding of costs and there is some use made of unit costs and benchmarking which has led to outcome driven action plans. The Council has a good track record of achieving efficiencies and this has continued in 2009/10. The Council is starting to use whole life cycle costs more routinely especially in large developments, and has invested time and resources in preparing staff for more use of this approach.

### Governing the business

**24** The Council has maintained its strong governance arrangements, and is keenly aware of the need to show continuous improvement. There has been a focus on member development and training, and governance in partnerships. The Council has recognised the improvements needed in obtaining consistent value for money in buying goods services across the Council. It is implementing the required changes and officers report that the first year savings are on track to be delivered. However the required savings over the longer term will be difficult to sustain without further systematic improvements.

## Managing resources

**25** The Council have reduced the number of buildings, saving £750,000 and reducing the carbon footprint, as part of a strategic approach to reducing office accommodation. They are continuing to look for opportunities to transfer assets to be managed by the community and there are good examples of successful community-run assets. The Council has made progress to deliver a challenging human resources agenda, reducing the number of senior managers and restructuring to deliver the required efficiencies.

## Risk-based performance reviews

**26** To support my review of the criteria I undertook the following studies.

- A review of the arrangements for area based working (a joint review with Kirklees PCT); and
- A follow-up review of the financial management in services for looked-after children.

**27** I have reported my detailed findings to the Council in separate reports.

## Area based working

**28** My review of area based working considered how well the Council and its partners are working to deliver better services to meet the needs of local people. The review was carried out across the Council and Kirklees Primary Care Trust. I completed and reported this work before the NHS White Paper proposed replacing Primary Care Trusts with GP consortia. This announcement increases the challenge the Council faces in developing effective area based working arrangements that support and enable service delivery and deliver improvements.

**29** My review assessed how far present arrangements for area working have led to the key benefits partners intended:

- services tailored to the assessed needs of each area;
- local residents able to influence local decisions and budgets; and
- more accessible and integrated local services.

**30** Partners recognise that, despite significant investment, area based working has not delivered the intended benefits and this has led to some disillusionment and frustration among key staff.

**31** The Council's recent review has provided the principles and outline structure for area-based working moving forward. However, much of the implementation detail is still under development. Success will require all partners to provide strong leadership over the coming months – ensuring actions support the stated commitment. This will enable officers and politicians alike to recognise and help realise the benefits of area-based working.

**32** In particular the Council, and its partners, will need to:

- turn the general commitment to area based working into a series of goals that will lead to action,

- involve residents in area-based working, and integrate the work of area committees into the process to enable area based working to drive service provision and local improvement, and
- design practical performance measures that focus on outcomes for residents and make area teams responsible for delivering them.

**33** I have agreed detailed recommendations with partners and plan to review progress when the outcomes of the partners' review have had time to develop.

### **Financial management in services for looked after children**

**34** My review followed up the Council's progress in implementing the agreed action plan in my initial report in March 2009.

**35** My work recognised the issues are complex, but concluded the Council had made limited progress against the recommendations.

**36** The Council had not yet established whether the balance between its spend on prevention and early intervention and targeted services for children in need is right. This is not an area for which there is extensive notable practice to which the Council can turn. However, the Council's revised Children & Young People's Plan does focus on this, and this is a necessary step in the right direction. The Council will require the full and active support of the Children's Trust if it is to deliver meaningful results.

**37** In addition I reported that the Council's aim to develop a methodology to assess outcomes and the value for money of preventive work remains unfulfilled.

### **National fraud initiative**

**38** The Council has a well established and robust approach to responding to the national fraud initiative (NFI), and has continued to take a positive approach to reviewing the data matches from the latest NFI based on 2008/09 data. Officers have identified £200,000 of fraud through NFI during 2009/10 and are now recovering these amounts.

### **Approach to local value for money work from 2010/11**

**39** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of the options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to the local VFM audit work.

**40** I will base my work on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

41 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer provide an annual scored judgement from my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

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# Current and future challenges

## Public spending cuts

**42** The most significant challenge facing the Council is to manage the impact of the public spending cuts, to ensure the Council continues to improve service delivery with reduced resources.

**43** The Comprehensive Spending Review in October 2010 announced that revenue funding to local government would reduce by 26% in real terms over the next four years. This was broadly in line with the announcements made in the emergency budget in July 2010. This follows announcements of in-year funding cuts in 2010/11 which impact on services this year. These cuts place great demands on the Council to continue to improve front-line services to the public while managing with fewer resources.

**44** The Council had already embarked on an Innovation & Efficiency programme (I&E), designed to deliver £30m of savings by 2013/14. The programme aims to change service delivery, and deliver efficiency savings through effective use of assets, more effective procurement, and better use of information technology. The Council's work on I&E has given it a head start in addressing the current and future financial challenges but this will not make the delivery of the programme any easier. In addition the Council has identified a further £50m of required savings by 2013/14 to meet the reductions in funding. Achieving this level of savings will require officers and members to make difficult decisions and implement them resolutely.

**45** The Council has already revised its Medium Term Financial Strategy (MTFS) and will continue to update this document while producing the 2011/12 budget. I will review the Council's MTFS as part of my 2010/11 VFM conclusion programme.

**46** As part of the I&E programme the Council has already restructured its senior management, significantly reducing the number of Directors and Assistant Directors. This is a key element of achieving the planned savings, but the Council will need to ensure that in the transitional period before the new arrangements are fully operational, the key management and service delivery roles continue to be delivered.

**47** The Council's capital regeneration programme assumes a level of investment from public funds. This will need close and careful management to ensure the schemes are delivered, and achieve the expected improvements in services. It is already revisiting the size and priorities of the capital programme in light of the funding announcements.

**48** The government's proposal to replace Primary Care Trusts with GP consortia presents added challenges to the Council. Like all other major councils it will need to influence, and then deal with the consequences of,

the major national reorganisation of the NHS. This is likely to trigger major changes to the current ways of delivering health and social care services, and the way the Council works with its health partners.

**49** Each of these issues are complicated, they will place significant demands on the reduced numbers of senior managers, and involve significant risks. Like all other major public sector organisations, the Council will need to ensure that its performance management, financial management, project and programme management, and risk management arrangements operate successfully and robustly throughout this difficult period.

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## Closing remarks

**50** I have discussed and agreed this letter with the Chief Executive and the Interim Director of Resources. I will present this letter at the Corporate Governance & Audit Committee on 25 November 2010 and will provide copies to all members.

**51** Full detailed findings, conclusions and recommendations in the areas covered by my audit are in the reports I issued to the Council during the year.

Report	Date issued
Audit fee letter	May 2009
Audit opinion plan	May 2010
Review of area based working	July 2010
Financial management in services for looked after children	August 2010
Annual governance report	September 2010

**52** The Council has taken a positive and helpful approach to my audit. I wish to thank the Council staff for their support and cooperation during the audit.

Paul Lundy  
District Auditor

November 2010

## Appendix 1 – Audit fees

The table below shows the actual fees for my 2009/10 audit did not vary from the level proposed in my 2009/10 audit plan.

	Actual	Proposed	Variance
Financial statements and annual governance statement	278,775	278,775	0
Value for money	89,540	89,540	0
Whole of Government Accounts	2,685	2,685	0
Total audit fees	371,000	371,000	0

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## Appendix 2 – Glossary

### Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, which direct and control local government bodies and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code. It includes how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### Financial statements

The annual accounts and accompanying notes.

### Qualified

The auditor has some reservations or concerns.

### Unqualified

The auditor does not have any reservations.

### Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.