

# Annual Audit Letter

**Dover District Council**

**Audit 2009/10**

**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 elements:**

- **the audit of your financial statements (pages 3 and 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 8).**

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

### **Audit opinion and financial statements**

**1** I issued an audit report including an unqualified opinion on the financial statements on 30 September 2010. The accounts presented for audit were prepared to a sound standard overall.

### **Value for money**

**2** I issued an unqualified value for money conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources during the year ending 31 March 2010.

### **Delivering effective services**

**3** The Council has managed its budget well over the last year, delivering service efficiencies and financial savings. The economic downturn and the recent comprehensive spending review are however imposing unprecedented financial pressures on the public sector. The Council has recognised that difficult decisions will be required regarding spending priorities and is proactively exploring options to deliver improved efficiency and effective services.

# 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 30 September 2010.**

## Overall conclusion from the audit

**4** The Council prepared accounts to a sound standard overall. Although I identified some errors and adjustments during the audit, none of the amendments impacted on the overall out-turn position or balance sheet. The Council's finance team has faced resource constraints during the year following the loss of two key members of staff, and in context, this represents a solid achievement overall.

**5** The most significant amendment to the accounts in value terms was a material adjustment to the Cash Flow Statement. I am satisfied that this was a technical accounting adjustment only. However I have recommended to the Director of Finance and his team that they build early reviews of work completed by less experienced accounting staff into their closedown programme. The Director of Finance has agreed to this.

## International Financial Reporting Standards (IFRS)

**6** The Audit Commission carried out a national survey in July 2010 to assess the Council's preparation for implementing IFRS from 2010/11. This is a complex new area which requires significant input from staff, in finance and across the Council.

**7** As part of this survey I assessed the Council's performance as 'Red'. The survey was on a Red/Amber/Green scale and my assessment reflected the fact that the Council still had a lot of preparatory work to do including on key areas such as the valuation and classification of non current assets (formerly known as fixed assets) and the identification of leases.

**8** I have referred above to the capacity issues that the Council's finance team has faced this year and I recognise that the timing of IFRS is certainly difficult for the Council. Since my survey the Council has begun to redraw its plans for next year and is talking both with my team and colleagues across Kent about the steps required to ensure a smooth transition to IFRS. However there remains a lot to do. I will continue to work with you over the coming months as you complete the preparatory work for IFRS, providing support and expertise as a 'critical friend' where I can.

### Recommendation

**R1** Revise the project timetable for the completion of IFRS and ensure appropriate resources are in place to deliver it.

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# 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 have reported the outcome as the value for money (VFM) conclusion.**

## **2009/10 use of resources assessments**

**9** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**10** 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.

**11** I report the significant findings from the work I have carried out to support the VFM conclusion.

## **VFM conclusion**

**12** 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. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**13** This is a summary of my findings overleaf.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	Yes

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

### Managing finances

**15** The Council's financial planning process ensures that financial resources are allocated to corporate priorities. The risk register is used to develop and monitor financial planning risks and strategies to overcome them. The budget setting process is timely, budget management is good ensuring delivery of efficiency savings. Involvement with stakeholders is good and Neighbourhood forums have influenced financial planning and decision making, with some resources devolved to the forums. Senior officers and members display satisfactory financial leadership.

**16** The Council has an overall picture of its comparative cost and performance which helps it to prioritise service planning and review. It delivers reasonable VFM with services of average quality at below average cost overall. Areas of higher cost are justified by local priorities. The Council is working with East Kent partners to plan service quality improvements in a cost-effective way.

**17** The Council has good financial monitoring and forecasting processes to identify variances, enable corrective action and support decision making. Summary accounts are distributed to households and the full statutory accounts are available on its website with a set of FAQs.



## **Governing the business**

**18** The Council has a clear corporate plan and service strategies informed by consultation with local communities which inform decision making on major plans. Service reviews have led to improved quality for example in waste and housing management. A structured approach to procurement is in place – using joint arrangements where appropriate to support limited internal resources. The Council is working with partners to identify VFM opportunities through joint working.

**19** The Council has sound policies and systems in place to produce relevant and reliable data, and data security arrangements are sound. Management assess data quality risks and implement improvements. Performance reports are accessible and actively used in the decision making process. Improvements to services have been demonstrated as a result of the performance management system. Data quality protocols need to be extended to cover local partners.

**20** The Council has a sound governance framework with all expected codes, constitutional arrangements and procedures operating effectively and reviewed regularly. Members and managers understand governance principles and undertake appropriate development activities. The Council has a clear vision which is explained in its corporate plan. Good arrangements are in place to investigate and respond to complaints. A joint committee oversees governance arrangements for East Kent Partnership projects.

**21** The Council's risk management arrangements operate effectively and members and staff receive appropriate training. The risk management of partnerships is developing as the Council enters more joint working arrangements through the East Kent Partnership. The Audit Committee and internal audit functions are effective and systems of internal control are sound. The Council has a strong anti-fraud culture – its benefits fraud team has continued to achieve successful prosecutions in 2009/10 which are publicised in the local press.

## **Managing resources**

**22** The Council's approach to dealing with its environmental footprint is sound. It is producing a comprehensive plan which will show how it will reach its carbon reduction targets. It has worked with the Carbon Trust to develop a Carbon Reduction Management Plan and has a climate mitigation delivery plan with service plans in 2010/11 addressing climate change. Effective performance management underpins collecting data for National Indicators. It has worked with the Carbon Trust and completed energy audits of leisure centres and its main offices and Dover Museum in November 2009. It has trained staff to help them reduce driving emissions.

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

**23** 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 possible 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 our local VFM audit work.

**24** My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

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

**25** 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 be required to provide an annual scored judgement relating to 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.

# Current and future challenges

## Future challenges – Delivering effective services

**26** During 2009/10 the Council has demonstrated sound financial management in difficult circumstances. However, in common with the rest of the public sector, it is facing significant financial challenges ahead. The Council estimates that in the light of the Government's Comprehensive Spending Review (CSR) it will need to make savings from its annual budget of approximately £6 million. In year one (2011/12) this will be significantly higher due to the anticipated impact of front loading of the CSR funding reductions and reduced turnover resulting in a loss of savings currently achieved by the vacancy provision. The Council currently has a general fund balance of £1.9 million, which compares to a minimum target level of £1.5 million and preferred level above £2 million. There is therefore limited scope to make use of reserves.

**27** In a paper to Cabinet in November 2010 entitled 'Delivering Effective Services' the Executive set out its approach to dealing with these unprecedented financial pressures. The Council's approach will focus on:

- service prioritisation (using a Gold/Silver/Bronze approach, where Gold represents maintaining the current service but still expecting efficiencies; other options may lead to service reductions);
- restructuring;
- further efficiencies within services/departments; and
- moving forward the shared services agenda.

**28** The success of these initiatives will be particularly important in driving through efficiencies and ensuring the resilience of service provision. Actions taken already in terms of shared services include:

- the appointment of an East Kent Shared Service Director and dedicated team for Canterbury, Dover and Thanet Councils;
- an accelerated programme which is currently being negotiated to deliver shared services where there is benefit to the both the customer and the negotiating authorities;
- plans for the establishment of an Arms Length Management Organisation (ALMO) during 2011, subject to Secretary of State approval. This would be the first four way ALMO in the country;
- approval has been given for a joint Waste contract, between Dover District Council, Shepway District Council and Kent County Council, by a Joint Cabinet meeting in October 2010; and
- internal services have already moved to a shared service platform with the East Kent Audit Partnership and East Kent Human Resources Partnership, hosted by Dover council.

**29** This is a demanding programme but a necessary one. It is clear that both Members and officers realise that difficult decisions will be required over the coming months, including re fundamental questions regarding service provision. It is now key that the Council continues to make progress with delivery of the shared services agenda. My audit team and I will continue to work with you and your colleagues in East Kent, sharing good practice where appropriate and providing support throughout the year.

## Closing remarks

**30** I have discussed and agreed this letter with the Chief Executive and the Director of Finance and ICT. I will present this letter at the Governance Committee on 8 December 2010 and will provide copies to all board members.

**31** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Letter	June 2009
Opinion Audit Plan	June 2010
Annual Governance Report	September 2010

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

Andy Mack  
District Auditor  
November 2010

# Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	84,360	84,360	0
Value for money	36,540	36,540	0
Whole of government accounts	1,800	1,800	0
<b>Total audit fees</b>	<b>122,700</b>	<b>122,700</b>	<b>0</b>

## 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, by which local government bodies are directed and controlled 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, including 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.

## Appendix 3 Action plan

### Recommendations

#### Recommendation 1

Revise the project timetable for the completion of IFRS and ensure appropriate resources are in place to deliver it.

<b>Responsibility</b>	Director of Finance and ICT
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<b>Priority</b>	High
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<b>Date</b>	March 2011
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<b>Comments</b>	The Council accepts the recommendation to revise the timetable for the completion of IFRS and look forward to working with the Audit Commission on this. Every effort will be made to meet the requirements of IFRS. However, it should be noted that resource constraints arising from the Government's spending review and the resource requirements of supporting initiatives on shared services within East Kent, joint waste services, and creation of the Housing ALMO, mean that delivering IFRS will be a significant challenge.
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