

# Annual Audit Letter

Dover District Council  
Audit 2008/09

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# Contents

<b>Key messages</b>	<b>3</b>
<b>Financial statements and annual governance statement</b>	<b>4</b>
<b>Value for money and use of resources</b>	<b>6</b>
<b>Closing remarks</b>	<b>9</b>
<b>Appendix 1 – UoR underlying principles of performance</b>	<b>10</b>
<b>Appendix 2 – UoR key findings and conclusions</b>	<b>11</b>
<b>Appendix 3 – Action plan</b>	<b>16</b>
<b>Appendix 4 – Audit fee</b>	<b>17</b>

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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.**

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## Audit Opinion

- 1 My 2008/09 audit is now complete. I issued an unqualified opinion on the financial statements dated 25 September 2009.
- 2 The accounts were prepared to a good standard. There were a small number of minor matters arising during the audit and I reported these in my Annual Governance Report presented to the Governance Committee on 23 September 2009.

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## Value for money

- 3 I issued an unqualified value for money conclusion for the year ended 31 March 2009.
- 4 The Council has sound arrangements in place to manage its finances, govern the business and manage other resources. Services are cost effective and data quality and risk management arrangements work particularly well. The Council is working actively to increase joint working with partners in East Kent and the successful delivery of these plans will be critical in enabling it to maintain a secure financial position and to deliver future service improvements.

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## Actions

- 5 Our key recommendations, which are also set out within the body of this report, are as follows:
  - continue work with partners to develop arrangements for joint working across East Kent, ensuring that appropriate governance arrangements are in place and that the new arrangements are used as a platform to deliver better services for local people; and
  - ensure workforce planning and financial management continue to be sufficiently robust to deal with the many uncertainties and changes facing local government nationally and Dover locally.

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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.**

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## Matters arising from the audit

- 6 The financial statements were approved by the Governance Committee on 24 June 2009. Officers presented a comprehensive set of accounts and working papers, and provided detailed explanations to members of the committee.
- 7 I issued an unqualified opinion on the Council's accounts on 25 September 2009. I reported on the detailed matters arising from the audit to the Governance Committee on 23 September. The Council's accounts were produced to a high standard, with only a small number of adjustments required and strong working paper trails to support the financial statements.
- 8 I did not identify any significant weaknesses in the Council's internal control arrangements which might result in a material error in the financial statements, or any weaknesses in the qualitative aspects of the Council's financial reporting. I am also satisfied that the annual governance statement complies with CIPFA requirements and is consistent with my knowledge of the Council.

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## Other matters - Impact of the economic downturn

- 9 During my review of the accounts I noted the following other matters:

### Treasury Management

- 10 The Council had £1 million invested for one year in an Icelandic bank, Landsbanki, which was due for repayment in November 2008. In October 2008, the bank was placed in administration, and the Council has recognised in its accounts a potential loss (impairment) of £207,000 in accordance with CIPFA guidance. This investment complied with the Council's approved treasury management policy at the time when it was made, and the Council has reviewed its policy following the banking crisis to ensure that security of its funds continues to receive high priority when investment decisions are made.

### Asset valuations

- 11 As a result of falling market values of buildings and land, the Council has recognised in its 2008/09 accounts impairments of £22 million in the value of its housing stock, and £3.5 million in the value of other fixed assets.

- 12** I am satisfied that the Council has accounted properly for both the above issues in the financial statements. These issues highlight however the effect that the economic downturn is having on public finances and the bodies that manage them. As the impact of the recession and the pressure on public finances, the ability of councils to fund planned service delivery and capital programmes will be severely challenged. Continued robust financial management will be essential if the Council is to deliver the services it aspires to over future years.

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# 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

- 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 1 below. These have been subject to our national quality assurance process. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 2.

**Table 1** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	3
Managing resources	2
<b>Overall</b>	<b>2</b>

## Value for money and use of resources

- 16** In overall terms I have assessed Dover as performing at level 2, which means that sound arrangements are in place across all the key lines of enquiry which I reviewed. The Council is not yet demonstrating consistently strong outcomes for local people, but it has demonstrated some good areas of strength, which I outline below, and the planned partnership working across East Kent brings with it potential for significant efficiencies and improvements in services.
- 17** Key areas of strength demonstrated by the Council include the following:
- Understanding costs and achieving efficiencies: The Council has a good understanding of its cost base and provides cost efficient services. It makes good use of benchmarking information such as the Kent price book to identify areas where savings can be made. Recent examples of this include grounds maintenance and development control.
  - Data quality: Arrangements are robust. Reliable data supports good decision making by both members and officers.
  - Governance, risk management and internal control: Both Members and officers demonstrate high standards of governance and accountability. Risk management arrangements work well and inform good decision making. The Governance Committee is effective and Internal Audit provide a good and wide ranging level of assurance.
- 18** The major challenge for the Council is that the financial position is tightly drawn and there is limited scope to invest in future improvements. Efficiencies are planned through an extensive programme of joint working with partners in East Kent and the success of this will be critical in helping the Council to maintain a secure financial position and to deliver planned service improvements.
- 19** Key recommendations for the Council are to:

### Recommendations

- R1** Continue work with partners to develop arrangements for joint working across East Kent, ensuring that appropriate governance arrangements are in place and that the new arrangements are used as a platform to deliver better services for local people.
- R2** Ensure workforce planning and financial management continue to be sufficiently robust to deal with the many uncertainties and changes facing local government nationally and Dover locally.

### Other local risk based work

- 20** We have completed our 2008/09 Kent-wide review of health inequalities. Presentations have been delivered to the Kent Public Health Board and local Health and Wellbeing Boards across Kent.

- 21** We found that the Dover Health and Wellbeing Partnership Group has a good understanding of the underlying social and lifestyle issues adversely affecting many who suffer poorer health outcomes. These include people living in more deprived areas who may experience isolation, anti-social behaviour, crime, lack of employment opportunities, inappropriate housing and lack of skills. In considering ways to bring about success in reducing health inequalities, three key barriers were identified:
- the self-image of residents on health issues;
  - internal communication; and
  - data quality.
- 22** An action plan has been developed with the Group to tackle these areas.

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### VFM Conclusion

- 23** 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 2.
- 24** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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## Closing remarks

- 25** I have discussed and agreed this letter with the Chief Executive, the Head of Finance and ICT and the Head of Governance. I will present this letter at the Governance Committee on 26 November 2009 and copies should be provided to all members.
- 26** 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.
- 27** The Council has taken a positive and constructive approach to our audit. I wish to thank Council staff for their continued support and co-operation during the audit.

Andy Mack  
District Auditor  
October 2009

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# Appendix 1 – UoR underlying principles of performance

<b>Level 2</b> <b>Meets only minimum requirements – performs adequately</b>	<b>Level 3</b> <b>Exceeds minimum requirements – performs well</b>	<b>Level 4</b> <b>Significantly exceeds minimum requirements – performs excellently</b>
<p>Arrangements, that are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.</p> <p>Arrangements sufficient to address the KLOE demonstrating, for example: organisational leadership and commitment; partnership working; and appropriate capacity and skills informed by priorities with supporting action plans as appropriate.</p> <p>Arrangements that achieve minimum acceptable levels of performance.</p>	<p>Implemented effective arrangements that are:</p> <ul style="list-style-type: none"> <li>• forward looking and proactive in identifying and developing opportunities for improvement; and</li> <li>• include more sophisticated measuring and assessment techniques.</li> </ul> <p>Outputs and outcomes demonstrate arrangements which are effective and have the intended impact. Where appropriate, the arrangements show evidence of effective partnership working.</p> <p>Evidence of performing consistently above minimum acceptable levels and achieving value for money.</p>	<p>Demonstrating innovation or best practice.</p> <p>Demonstrating strong outcomes for the community including through partnership working.</p> <p>Evidence of performing well above minimum acceptable levels and achieving excellent value for money.</p>

# Appendix 2 – UoR key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three Use of Resources themes.

## Managing finances

<b>Theme score - 2</b>	
<b>Key findings and conclusions</b>	
<p>Financial planning and health: The Council's financial planning process ensures that financial resources are allocated to corporate priorities. Financial planning risks are identified and strategies to overcome them are in place. The budget setting process is timely, budget management is good and expenditure has been contained within budget, and savings are being delivered. Neighbourhood forums have helped shape financial planning and make resource decisions. Senior officers and members demonstrate a satisfactory level of financial leadership.</p> <p>Understanding costs and performance: 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.</p> <p>Financial reporting: The Council has good financial monitoring and forecasting processes to identify variances, enable corrective action and support decision making. The Council's accounts are prepared on a timely basis, with few errors, statutory deadlines and standards have been met and working papers are of good quality. Summary accounts are distributed in the Council's quarterly newsletter to households and are available on its website with a set of FAQs.</p>	
<b>KLOE 1.1 (financial planning)</b>	<b>Score - 2</b>
<b>Strengths</b>	
<ul style="list-style-type: none"> <li>Resources are allocated to corporate priorities.</li> <li>Neighbourhood forums help shape financial planning.</li> <li>Budget management is good and savings are being made (eg grounds maintenance and development control) to meet medium term targets.</li> </ul>	
<b>Issues to consider</b>	
<ul style="list-style-type: none"> <li>Consider the impact of shared services and partnership working on future capacity and planned savings.</li> </ul>	

<b>KLOE 1.2 (understanding costs and achieving efficiencies)</b>	<b>Score - 3</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• The Council has a sound understanding of its costs and relative performance.</li> <li>• Overall value for money is reasonable with services of average quality at below average cost. Higher cost areas (eg regeneration) are justified by local priorities.</li> <li>• Efficiency improvements have been delivered in some services (eg benefits, waste management and cleanliness).</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>• How to deliver improved efficiency while maintaining performance, especially during the economic downturn?</li> <li>• How to improve service quality (eg recycling and sports facilities) whilst maintaining low relative spend?</li> </ul>	
<b>KLOE 1.3 (financial reporting)</b>	<b>Score - 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Good processes are in place for financial monitoring and forecasting, accounts preparation and scrutiny.</li> <li>• Public reporting of the Council's accounts in a quarterly newsletter, and on its website together with a set of 'frequently asked questions'.</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>• Scope to improve reporting on partnership arrangements and on environmental impact?</li> </ul>	

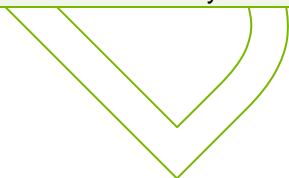


## Appendix 2 – UoR key findings and conclusions

### Governing the business

<b>Theme score - 3</b>	
<b>Key findings and conclusions</b>	
<p>Commissioning services: 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 in eg waste and housing management. A structured approach to procurement is in place - joint arrangements are used where appropriate to support limited internal resources. The Council is working with partners to identify VFM opportunities through joint working.</p> <p>Data quality: The Council has sound policies and systems in place to produce relevant and reliable data, and data security arrangements are sound. Data quality risks are assessed by management and improvements implemented. 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.</p> <p>Governance: The Council has a sound governance framework. All expected codes, constitutional arrangements and procedures operate effectively. Governance principles are supported by members and management who undertake appropriate development activities. The Council has a clear vision in its corporate plan, and good arrangements are in place to respond to complaints. Governance arrangements for local partnership projects are overseen by a joint committee.</p> <p>Risk management: The Council's risk management arrangements operate effectively, and members and staff receive appropriate training. The risks of significant partnerships are managed proactively. The Audit Committee and internal audit functions are effective, and systems of internal control are sound. An action plan arising from the annual governance statement has led to improved arrangements in 2008/09. The Council has a strong anti-fraud culture - its benefits fraud team made 10 successful prosecutions in 2008/09, and it has run a publicity campaign in the local press.</p>	

<b>KLOE 2.1 (commissioning and procurement)</b>	<b>Score 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Service strategies informed by consultation with local people, eg the ‘Together’ programme for vulnerable communities; and neighbourhood forums</li> <li>• Service reviews have led to improved quality in eg waste and housing management</li> <li>• Joint arrangements used to support limited internal resources</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>• Is the Council able to demonstrate that better procurement is driving improvements in efficiency and better outcomes for local people?</li> <li>• How can the Council demonstrate that its work with partners to procure more cost effective services for the people of East Kent?</li> </ul>	
<b>KLOE 2.2 (data quality and use of information)</b>	<b>Score 3</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• The Council has good policies and systems in place to produce relevant and accurate data</li> <li>• Performance reports are used in the decision making process, leading to service improvements eg good outcomes in benefits, housing void times, customer access and cleanliness</li> <li>• Data security arrangements are sound and work well</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>• How can data quality protocols be extended to cover local partners?</li> </ul>	
<b>KLOE 2.3 (good governance)</b>	<b>Score 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Established constitution with clearly defined roles and responsibilities</li> <li>• Codes of conduct for members and officers which follow best practice</li> <li>• Robust and effective Governance Committee</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>• How well do the governance and scrutiny arrangements for partnership working enable the potential efficiencies and service outcomes to be realised?</li> <li>• To what extent can members demonstrate visibly the values of good governance? (National issue - lack of public trust)</li> </ul>	



## Appendix 2 – UoR key findings and conclusions

<b>KLOE 2.4 (risk management and internal control)</b>	<b>Score 3</b>
<b>Strengths</b> <ul style="list-style-type: none"> <li>• Good risk management and internal control arrangements</li> <li>• Significant partnership risks are proactively managed</li> <li>• Joint internal audit function across East Kent is resulting in shared good practice and efficiencies</li> <li>• Strong anti-fraud culture in place - benefits fraud cases publicised</li> </ul> <b>Issues to consider</b> <ul style="list-style-type: none"> <li>• How does the Governance Committee gain assurance that agreed actions are implemented?</li> </ul>	

## Managing resources

<b>Theme score - 2</b>	
<b>Key findings and conclusions</b>	
<p>The Council's workforce planning is soundly based. Competencies have been identified and are used to inform service planning. Recruitment arrangements are sound. Poor performance is addressed, and sickness absence managed effectively. There are satisfactory mechanisms to support organisational change. Staff survey results are positive about recruitment, training, customer focus and equalities, but show concerns about promotion opportunities and some aspects of communication. Workforce development plans for the medium term are dependent on clarity over joint service delivery plans across East Kent which are being developed currently.</p>	
<b>KLOE 3.3 (workforce planning)</b>	<b>Score - 2</b>
<b>Strengths</b> <ul style="list-style-type: none"> <li>• Sound approach to workforce management, including recruitment arrangements, performance assessment, and sickness management</li> <li>• Staff survey results positive about training, customer focus and equality</li> </ul> <b>Issues to consider</b> <ul style="list-style-type: none"> <li>• Is workforce capacity sufficient to deliver all long term plans?</li> <li>• Is workforce planning sufficiently robust to deal with the many uncertainties and changes facing local government nationally, and Dover locally, notably the impact of the recession, reduced government funding and the impact of increased partnership working?</li> <li>• Address staff survey concerns about promotion opportunities and some aspects of communication?</li> </ul>	

# Appendix 3 – Action plan

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Audit Letter 2008/09 Recommendations</b>					
R1 Continue work with partners to develop arrangements for joint working across East Kent, ensuring that appropriate governance arrangements are in place and that the new arrangements are used as a platform to deliver better services for local people.	2				
R2 Ensure workforce planning and financial management continue to be sufficiently robust to deal with the many uncertainties and changes facing local government nationally and Dover locally.	2				



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# Appendix 4 – Audit fee

28 The table below reports the projected outturn fee against the 2008/09 audit plan.

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## 2008/09 audit fees

<b>Audit area</b>	<b>Planned fee 2008/09 £</b>	<b>Actual fee 2008/09 £</b>
Financial statements	92,119	92,119
Use of resources	27,263	27,263
Total audit fee	119,382	119,382
Total inspection fee	14,510	14,510
Total audit and inspection fee	133,892	133,892

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