

# Annual Audit Letter

Stockton-on-Tees Borough Council

Audit 2008-2009

November 2009



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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.
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# 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 I issued an unqualified opinion on the financial statements on 30 September 2009.
  - 2 There were a number of amendments to the accounts, including one material adjustment. There was a reduction of £35million made to the Council house value in the accounts, to reflect the impact of the current economic climate.
  - 3 It is normal practice to issue my certificate at the same time as the opinion. However, I have received a formal objection to the accounts in relation to taxi licensing fees. I am satisfied that the issues raised will not impact on my opinion on the accounts. I cannot however issue a certificate to close the audit until I have concluded my work on the objection.
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## Financial Statements

- 4 The financial statements were prepared to a good standard in advance of the statutory deadline of 30 June and were supported by comprehensive electronic working papers.
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## Use of resources

- 5 The Council's arrangements for managing finances were assessed as excellent with a strong value for money culture, excellent financial management practice and timely and reliable external financial reporting. The Council can demonstrate efficiencies and improved performance as a result of investment into services. There are high and sustained levels of satisfaction with services.
  - 6 The Council's arrangements for governing the business were assessed as excellent. There is a systematic approach to commissioning and procurement with high levels of partnership working and joint commissioning, resulting in savings. Relevant and accurate information is used to support decision making. There are sound internal control arrangements and a high standard of governance.
  - 7 The Council performs well at managing resources. Plans are in place to minimise use of natural resources with extensive work on carbon management. There is limited evidence to date of improved outcomes from these plans other than reduced carbon use. Physical assets are proactively managed and the Council works with partners to maximise integrated service provision and regeneration opportunities.
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- 8 Progress is being made in tackling the significant health inequalities in the North East through leadership from regional agencies, partnership working between public sector bodies and the voluntary sector at the local level, and by increasing or prioritising funding. More action is needed to progress further and faster.
- 9 The economic downturn and banking crisis are having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 10 The Council has responded to the challenging economic climate, reviewing the medium term financial plan and assessing what action can be taken to support local people and businesses. Progress is being monitored monthly by members.

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### Comprehensive Area Assessment

- 11 Comprehensive Area Assessment (CAA) is a new mechanism for assessing locally delivered public services. CAA brings together judgments from the Audit Commission, Care Quality Commission, HM Inspectorates of Constabulary, Prisons and Probation, and Ofsted into one coordinated view of public services in an area. The primary focus of CAA is on the place and not organisations, and on outcomes achieved for the community rather than the process.
- 12 The Council's Use of Resources assessment will feed into the area assessment element of CAA and help to illustrate how well public services in the area are addressing their local priorities. The joint assessment for the Stockton area will be published on the CAA website. The first reporting of the findings of CAA will be published on 10 December 2009.

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### Audit fees

- 13 The fee for undertaking our audit in 2008/09 was £243,400 (plus VAT), which was in line with the proposed fee. There will be additional fee charged for the time involved in dealing with the objection. More details on fees, including comparatives for 2007/08, are shown in Appendix 1.

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### Actions

- 14 Recommendations are shown within the body of this report and have been agreed with the audited body.

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### Independence

- 15 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

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## Significant issues arising from the audit

16 I issued an audit report including an unqualified opinion on the financial statements. The following changes to the accounts were agreed with officers:

- Council house values had not been revisited to take into account the impact of the fall in house prices caused by the current economic climate. Further review by the valuer has resulted in a reduction in value of £35million in the accounts;
- the Pension Fund accountant wrote to the Council on 21 September 2009 informing them of an error in the interest rate used by the actuary to calculate pension fund interest costs. The impact of the error increased charges to the income and expenditure account by £6.052million which was then reversed out through the statement of total recognised gains and losses to avoid impact on Council Tax;
- the Council made changes to figures brought forward from last year's audited accounts which is not permitted in Accounting Standards. These changes were reversed to correctly reflect last year's audited figures, affecting pension fund reserve and liability (£4.1million) And the collection fund NNDR figure (£116,000);.
- officers identified extra charges for fixed asset impairments of values which had not been included in the Statement of Total Gains and Losses. The additional charges amounted to £1.8million but do not affect the Council's balances;
- The income and expenditure account includes entries for revenue support grant (RSG) and national non domestic rates (NNDR). £3m of NNDR had been incorrectly included with the RSG;
- Officers identified some adjustments in the cash flow statement between interest received and paid, and loans and investments. There was no overall change to the increase in cash; and
- The amount for revaluation of assets in the fixed asset register did not agree to the Valuer's summary schedule, the fixed asset register has been amended by £139,000. The accounts were correctly stated.

- 17 There was one error which was not corrected. The pension fund actuary uses estimated investment values to allow earlier provision of pension fund information to the Council and other admitted bodies. The pension fund auditor identified a difference between the estimated and actual investment values at the year end, estimating that the impact of the error would result in an decrease to the pension fund deficit of £865,000 (current deficit £99.7 million). This uncorrected error does not have a material effect on the accounts.

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### Material weaknesses in internal control

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

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### Accounting Practice and financial reporting

- 19 I considered the qualitative aspects of your financial reporting and did not identify any significant issues to raise with you.

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### Preparations for the introduction of International Financial Reporting Standards (IFRS)

- 20 The Council's financial statements will be prepared under International Financial Reporting Standards (IFRS) for the first time in 2010/11.
- 21 IFRS imposes significant additional reporting and disclosure requirements and the Council will need to collect and collate additional or new data to meet these requirements. The key areas of change are likely to be private finance initiative, leases, property, plant and equipment and employee benefits.
- 22 The Council is aware of the new requirements and has plans in place to collect the additional information needed, making appropriate progress against plans.

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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.

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## Use of resources judgements

- 23** 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.
- 24** 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 **local** audit work.
- 25** The Council's use of resources theme scores are shown in Table 1 below.

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**Table 1** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	4
Governing the business	4
Managing resources	3

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## Managing finances

- 26** The Council has a strong value for money culture which has helped it in making service improvements at a time when it is faced with limited resources and increasing demand. It has retained a customer focus and made progress on priorities by setting a clear direction. The value for money culture is embedded throughout the Council and included as a core competency in the competency framework. The financial framework has been successful in driving efficiency and supporting robust challenge, and there is a clear link between spend and performance.

- 27 Excellent financial management practice, including the efficiency agenda, is embedded within the overall culture of the Council resulting in an integrated approach to managing finance, resources and risk. Outcomes from this approach demonstrate high and sustained levels of satisfaction with services and improving performance in areas identified as priorities by the local community and within key strategies and plans. Satisfaction with the Council is high and increasing, in contrast to the national trend.
- 28 The Council has well established treasury management arrangements, including appropriate controls over investments and borrowing. The Council has also reviewed the recommendations in the Audit Commission report 'risk and return' and is raising the profile of treasury management with members through quarterly reporting to the Audit Committee.
- 29 External financial reporting is timely and reliable, but there was an issue identified about Council house valuations for 2008/09. The content of the Council Plan takes account of the needs of a range of users and includes information on environmental impact and diversity issues.

### Governing the business

- 30 The Council has a corporate approach to commissioning and procurement which is clearly documented, systematic and well established. There is a high level of partnership working and joint commissioning and evidence that this is resulting in efficiencies and changes to service provision. Examples include joint appointments and commissioning arrangements with the PCT, procurement via direct payment care packages and savings on negotiated contracts using e-procurement.
- 31 The Council produces relevant and accurate information to support decisions as part of the overall framework of risk, performance and information management. The Council has recently been identified as best practice in the Audit Commission report '*Is There Something I Should Know?*'
- 32 There are well established arrangements in place for internal control and high standards of governance.

### Managing resources

- 33 The Council has plans in place to minimise its use of natural resources and is working with partners to deliver plans. The Council has quantified key carbon management targets and has a carbon management plan in place to achieve the targets. The carbon management plan is considered to be an exemplar by the Carbon Trust. The approach taken to carbon management is now being applied across all areas of usage but evidence of improved outcomes to date is limited other than reductions in carbon use.
- 34 The Council is proactively managing its physical assets and working with partners to maximise integrated service provision. The Workwise project is resulting in more flexible working and reductions in office space and is an integrated approach to asset management, efficiency and carbon management.



### VFM Conclusion

- 35** 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.
- 36** 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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### Health inequalities

- 37** Our review, completed jointly by the Audit Commission and Deloitte has involved public sector bodies across the North East, as well as the voluntary sector, looking at how organisations are working together to tackle health inequalities. In Stockton we also carried out a more detailed review of action being taken to address teenage pregnancy.
- 38** Addressing such a major issue is not the preserve of any one organisation but must be addressed through co-operation and a shared commitment to action. We found that good progress is being made in tackling health inequalities through leadership from regional agencies, partnership working between public sector bodies and the voluntary sector at the local level, and by increasing or prioritising funding.
- 39** Life expectancy is increasing and, in most areas, the mortality rate reducing at a faster rate in the North East than nationally, narrowing the gap between the North East and the rest of the country.
- 40** However, whilst life expectancy is improving, men and women in the North East are still likely to die younger than the national average. In Stockton, men and women living in the most deprived areas can expect to die on average more than eleven years and six years earlier respectively than their counterparts in the least deprived areas.
- 41** There are also significant issues in the North East around unhealthy lifestyles. For example the percentage of North East women smoking in pregnancy and hospital admission rates related to alcohol are the worst nationally; childhood obesity rates and teenage pregnancy rates are higher than the national average.
- 42** Organisations in the North East need to build on the progress that has been made to date and ensure that they move further and faster in addressing health inequalities. Our North East wide report and local review on teenage pregnancy highlights a number of key areas that partnerships need to focus on to improve action to address health inequalities:
- Strategic priorities and funding should be aligned. There are significant economic and financial costs associated with health inequalities that can be reduced through successful funding.
  - Successful targeting of services to those who most need them, based on good data. We found that this data is often not available.
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- Accountability and performance management arrangements were often weak or not in place, so that those delivering services may not be adequately held to account and value for money and improved outcomes cannot be demonstrated.
  - Joint working was variable, with some good examples, but also other instances where a lack of partnership working reduces effectiveness. Joint data collection needs to improve, with a lack of shared information systems causing problems.
  - Agencies need to look for ways to better support and use the resources available in the community and voluntary sector.
  - There was mixed practice in taking community views into account in developing high level strategies and service development plans.
- 43** The detailed report is being distributed to public sector bodies across the North East and includes a series of recommendations and questions for all organisations and partnerships to consider in reviewing and evaluating their plans and actions to address health inequalities.
- 44** In our specific review of arrangements to tackle the levels of teenage pregnancy in Stockton we found a number of strengths, including:
- good progress is being made to implement the arrangements to reduce teenage pregnancy in line with recommendations for interventions made by the national teenage pregnancy unit. Funding for teenage pregnancy services is clearly identified and additional funding has been found; and
  - there are clear examples of where gaps were identified in services provided and additional resources input to improve services.
- 45** Areas for development included:
- producing a prioritised funding bid to address gaps in services linked to local aims and national targets; and
  - producing a set of priority performance indicators and targets for teenage pregnancy services to improve the quality and scope of information analysed.
- 46** We have reported our detailed findings and agreed an action plan to address the areas of improvement we identified.

### Recommendation

- R1** The Council should work with partners, using the recommendations in our health inequalities reports to improve targeting and performance management, making effective use of the voluntary sector and community views.

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# Closing remarks

- 47 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 7 December 2009 and will provide copies to all Council members.
- 48 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.

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**Table 2**

<b>Report</b>	<b>Date issued</b>
Audit plan	April 2008
Report to those charged with governance	September 2009
Opinion on the financial statements	September 2009
Value for money conclusion	September 2009
Health inequalities - teenage pregnancies	October 2009
NE health inequalities	October 2009
Use of resources	November 2009
Use of information	November 2009
Annual audit letter	November 2009

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- 49 The 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.

Lynne Snowball  
District Auditor  
November 2009

# Appendix 1 – Audit fees

**Table 3     Audit fees**

	<b>Actual 2008/09</b>	<b>Proposed 2008/09</b>	<b>Actual 2007/09</b>
Financial statements and annual governance statement	159,050	159,050	159,600
Value for money and use of resources	84,350	84,350	75,850
<b>Total audit fees</b>	<b>243,400</b>	<b>243,400</b>	<b>235,450</b>

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# Appendix 2 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R1 The Council should work with partners, using the recommendations in our health inequalities reports to improve targeting and performance management, making effective use of the voluntary sector and community views.					

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# The Audit Commission

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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