

Annual Audit Letter

Oldham Metropolitan Borough Council

Audit 2008/09

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	5
Value for money and use of resources	8
Closing remarks	11

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.

Audit opinion

- 1 I gave an unqualified opinion on your 2008/09 financial statements on 30 September 2009.
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Financial statements

- 2 The number of material misstatements reduced this year due to improvements in the accounts preparation process and none identified at the audit had an effect on the Council's available revenue reserves.
-

Value for money

- 3 I concluded that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for 2008/09, except that it did not put in place adequate arrangements for:
 - producing relevant and reliable data and information to support decision making and manage performance; and
 - managing assets effectively to help deliver its strategic priorities and service needs.
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Use of Resources

- 4 Use of Resources is a scored judgement which determines how well councils manage and use their financial resources. I concluded that, overall, the Council performed adequately, at the minimum standards specified by the Audit Commission.
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Comprehensive Area Assessment and Organisational Assessment

- 5 The Audit Commission introduced a new assessment regime during 2009, Comprehensive Area Assessment (CAA). This aims to review the performance of local partners in delivering better outcomes for local people. The assessment is designed to focus on areas that need attention in order to deliver additional and sustained improvement. Our work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared draft findings with officers and she is due to formally report in December 2009.

Audit fees

- 6 Since my original fee proposals were communicated to the Audit Committee, I have varied the fee in consultation with the Borough Treasurer. There were two main reasons for varying the fee. These were:
- shortcomings in documentation arrangements required us to take more time over the audit than was expected; and
 - planned work on benchmarking was no longer necessary for the purposes of our audit.
- 7 The net effect of these issues resulted in an additional audit fee amounting to £31,200. Our revised fee is shown in Table 1 below.

Table 1 Audit fees

	Planned	Revised
Financial statements and annual governance statement	181,550	218,050
Value for money	143,350	138,050
Total audit fees	324,900	356,100
Non-audit work	0	0
Total	324,900	356,100

Actions

- 8 Recommendations are shown within the body of this report and have been reported previously to, and agreed by, the Council's Audit Committee.

Independence

- 9 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.

Significant issues arising from the audit

- 10** Compared with previous years, the number of material adjustments to the statements this year has reduced and this is largely due to:
- the commitment and action of staff in the Finance Service in improving the accounts preparation arrangements;
 - finance staff undertaking a detailed quality assurance review of the statements which identified and corrected some errors before the accounts were presented for audit;
 - fewer new accounting requirements in 2008/09;
 - engaging appropriate assistance to ensure difficult technical accounting areas have been treated correctly; and
 - early review by auditors to ensure key areas have been dealt with satisfactorily.
- 11** However, there were still shortcomings in the documentation arrangements which required us to take more time over the audit than was expected. Further work is therefore still needed to ensure that the Council's financial statements are produced to the expected professional standard, which is that the accounts presented for audit should be free of any material errors.
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Material weaknesses in internal control

- 12** I did not identify any weaknesses in the design or operation of an internal control that might result in a material error in your financial statements.

Accounting Practice and financial reporting

- 13** I considered the qualitative aspects of your financial reporting arrangements.
- 14** A quality assurance process was put in place with respect to the production of the accounts, targeted more to the areas of high risk. This, along with an improvement in the reconciliation procedures, the new ledger system and the appointment of a dedicated chief accountant to oversee the accounts production process, resulted in an improved process for reporting the accounts.
- 15** The audit identified the following areas where the procedures for compiling the financial statements could be further improved, both to reduce the number of errors in the accounts and to avoid additional audit fees:
- Working papers were better this year but there is still scope for considerable improvement. As examples, the working paper trail from the ledger to the financial statements was not always easy to follow, the filing of working papers was confusing in some areas and in some instances there were inadequate working papers to support significant balances.
 - We are concerned about the unnecessary complexity of the existing recharging procedures, and that the 2008/09 recharges were based on estimates.
- 16** I included several recommendations for improvement within the Annual Governance Report presented to the Audit Committee on 24 September 2009 and these are shown below. Officers are currently finalising the agreed action plan.

Recommendations	
R1	Ensure action is taken to further reduce the number of misstatements in the accounts
R2	Simplify the recharging methodology and ensure that recharges are in line with the actual costs incurred.
R3	Continue to improve the quality of working papers and ensure all balances are supported by appropriate documentation.

International Financial Reporting Standards (IFRS)

- 17** In March 2008 the Treasury announced that the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) from 2009/10 onwards. For local government bodies the first full year of application is the 2010/11 financial statements but the starting period for this (the transition date) is 1 April 2009. Local government bodies will be required to produce their 2009/10 Whole of Government Accounts return on an IFRS basis. The expected deadline for the WGA return is 1 October 2010.
- 18** As part of my 2008/09 audit I have completed an Audit Commission survey on the Council's progress in preparing for the implementation of the IFRS. The Council has made a good start in its preparations. Officers have identified the key risk areas for Oldham, undertaken an initial analysis to assess the work required and are in the process of preparing detailed methodologies for the various work areas.
- 19** However, officers recognise that, in keeping with many authorities, considerable further work will be needed during 2009/10 to ensure required timescales are met.

Treasury Management

- 20** As part of my 2008/09 audit, I completed an Audit Commission return on the Council's Treasury Management arrangements. The Council had no investments with Icelandic banks; it had already reviewed its list of potential investment areas.
- 21** There were no key issues identified in my review. I noted that the Council plans to review its Treasury Management framework following updated CIPFA guidance and that specific Treasury Management training is being considered for relevant Members.

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

- 22** 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 (which are represented by a score of level 2).
- 23** 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.
- 24** The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes are provided below.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances How effectively does the organisation manage its finances to deliver value for money (VFM)?	2
Governing the business How well does the organisation govern itself and commission services that provide VFM and deliver better outcomes for local people?	2
Managing resources How well does the organisation manage its natural resources, physical assets and people to meet current and future needs and deliver VFM?	2

Value for money and use of resources

- 25** Within these overall scores, there are two areas where the Council's arrangements do not meet minimum requirements:
- data quality and use of information; and
 - strategic asset management.
- 26** It is disappointing that these two areas continue to perform below minimum levels. Nevertheless, since this year's judgements reflect a harder test, it is clear that the Council's overall performance has improved in some respects since last year.

Managing finances

- 27** Overall Oldham Council's financial planning processes are adequate. Most of the basics are now in place; the Council performs well in a few areas but mostly performance is adequate.
- 28** As from February 2009, a three year medium term financial strategy (MTFS) has been in place which integrates revenue and capital, and identifies efficiency drivers and risks. The MTFS aims to link key local and national objectives, sets out current and projected financial forecasts and supports the Council's budgets for the next three years to 2011/12.
- 29** Treasury management arrangements are sound. However, some arrangements need to develop further before they can be said to be performing well; for instance, business and service planning is not yet fully integrated with financial planning. In addition, although financial reporting has improved, there remains considerable scope to improve the arrangements further.

Recommendations
R4 Fully integrate business, service and financial planning.
R5 Ensure action is taken to further improve financial reporting.

Governing the business

- 30** Overall, the Council's governance and procurement arrangements are adequate. However, there remain several areas where further improvement is needed to ensure that the Council is performing well in these areas.
- 31** Data Quality arrangements continue to be below minimum requirements and the Council needs to take action to improve its arrangements in this respect. We have reported weak data quality arrangements in previous years, and such weaknesses can undermine confidence in the information which is being used by the Council to manage performance and make decisions on future service provision.
- 32** The Council performs well in certain aspects of governance. However, risk management has been adequate for some years and has not yet moved on to the next level. Procurement is also adequate overall, but there are a number of specific weaknesses which the Council still needs to address.

Recommendation

R6 Review existing arrangements for ensuring the quality of performance data as a matter of priority.

Managing resources

- 33** The council is getting the basics right in developing plans to make effective use of its natural resources.
- 34** The council is not managing the performance of its assets with any rigour and is therefore not meeting minimum requirements with respect to the arrangements for managing its assets. In fact, performance has deteriorated since last year. The Council needs to give greater priority to the strategic management of its assets so that it can be satisfied that it is securing the best possible use of its asset base, thereby helping to deliver strategic priorities and service needs.

Recommendation

R7 Review asset management arrangements to ensure that the Council is securing the best possible use of its asset base.

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** Having regard to the relevant criteria, I judged that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for 2008/09 except that it did not put in place adequate arrangements in the areas shown at paragraph 25 above, namely:
- producing relevant and reliable data and information to support decision making and manage performance; and
 - managing its assets effectively to help deliver its strategic priorities and service needs.

Closing remarks

- 37** I have discussed and agreed this letter with the Chief Executive and the Borough Treasurer. I will present this letter at the Audit Committee on 4 March 2010 and will provide copies to all committee members.
- 38** 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.

Table 3

Report	Date issued
Audit and Inspection Plan	June 2008
Opinion Audit Plan	July 2009
Report to those charged with governance	September 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Use of Resources report	October 2009
Final accounts memorandum	November 2009.
Annual Audit Letter	December 2009

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- 39** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Mark Heap
District Auditor
December 2009

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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