

Annual Audit

Letter

Oldham 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 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 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 unqualified opinion on the Council's 2009/10 accounts on 31 August 2010 - one month before the statutory target date. For the first time in at least five years, there were no material misstatements in the accounts.

2 The finance team worked hard to prepare the accounts in advance of the deadline. They cooperated well with my team throughout the audit, which helped us to complete the audit efficiently. I will continue to work closely with the Council as it prepares for the move towards International Financial Reporting Standards (IFRS) in 2010/11

Value for money

3 I issued a qualified value for money conclusion on 31 August 2010. This conclusion is informed by 'relevant criteria' covering specific aspects of audited bodies' arrangements which are specified by the Audit Commission.

4 I am satisfied that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010 except that it did not have up to date and comprehensive strategic plans in place for managing its assets effectively to help deliver its strategic priorities and service needs.

Audit fees

5 Appendix 1 confirms that I have completed the audit of the financial statements and the VFM conclusion within the fee agreed with the Council.

Current and future challenges

6 In 2009/10 there have been a number of difficult challenges for the Council, including the economic climate and the transition to IFRS.

7 The impact of the Government's Emergency Budget and Comprehensive Spending Review will have a significant effect on the Council's finances and capacity to deliver services in the future. Members and officers are open about the scale of the challenge faced and are actively exploring how to achieve savings and review how services are provided.

8 In common with the rest of local government, the Council must change its method of accounting to adopt IFRS in 2010/11. This requires collection of more data, as well as changes in the format and accounting policies within the published accounts. Officers are carrying out the work using a formal project management approach. The project is well placed to meet its future milestones and no areas of the project are experiencing difficulties at this stage. Regular reports are made to the Audit Committee. I will continue to liaise with officers through to the closedown of the 2010/11 accounts.

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 31 August 2010, one month before the statutory target date.

Overall conclusion from the audit

9 I issued an unqualified opinion on the Council's accounts on 31 August 2010, one month before the deadline set by the Accounts and Audit Regulations. In my opinion the financial statements give a true and fair view of the financial position of the Council and its Group.

10 Before giving my opinion I presented my Annual Governance Report to the Audit Committee (those charged with governance) which summarised the issues arising from the 2009/10 audit.

11 Due to improvements in the accounts preparation process, for the first time in at least five years, there were no material misstatements in the accounts. There were also fewer non-material misstatements than in previous years and none identified at the audit had an effect on the Council's available revenue reserves.

12 There were some further misstatements which did have an effect on available reserves that management chose not to adjust and made representations to explain why no adjustments were made in these instances. These were not material and did not impact on my audit opinion.

Significant weaknesses in internal control

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

The National Fraud Initiative (NFI)

14 The National Fraud Initiative (NFI) is a data-matching exercise managed nationally by the Audit Commission that compares sets of data within and across public bodies to identify inconsistencies or other circumstances that might suggest fraud or error. It also helps auditors to assess the arrangements that audited bodies have put in place to deal with fraud. The results of the latest NFI are being investigated and the Council estimates total potential savings to be around £600,000.

Costs of unsuccessful prosecution

15 The Council incurred approximately £2 million in respect of a failed prosecution in relation to a trading standards case. The Council acted appropriately in commissioning its own formal and independent review of this matter with a view to understanding the circumstances surrounding the case and learning any lessons for the future. I was consulted on the review's Terms of Reference and I have been kept fully informed of its progress.

16 I will consider the review report along with any action planned by the Council in response to the findings before deciding whether there is any further work or formal audit action which I may need to take in the current audit year in relation to this matter.

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

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

18 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.

19 I report the significant findings from the work I have carried out to support the vfm 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. 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.

21 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Not assessed
Strategic asset management	No
Workforce	Yes

22 I issued a qualified conclusion stating that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010 except that it did not have up to date and comprehensive strategic plans in place for managing its assets effectively to help deliver its strategic priorities and service needs. At paragraph 34 overleaf, I have detailed the arrangements which the Council has now put into place to improve its processes.

Managing finances

23 Overall the Council's financial planning processes are improving, are mostly sound and becoming embedded. However, business and service planning is not yet fully integrated with financial planning.

24 There is a three year medium term financial strategy (MTFS) 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.

25 Treasury management arrangements are sound and financial reporting has improved.

26 The Council has made good progress this year in developing approaches to understanding its costs and performance. It has achieved efficiencies of £21 million during 2009/10 and has taken a robust and prudent approach to identifying savings.

Governing the business

27 The procurement function is becoming stronger and more strategic and has a key role in the efficiency and change programme. The corporate team is working with senior officers to drive improvements in commissioning and procurement practices. The Council can show the impact of managing suppliers more efficiently and there is evidence that effective delivery of procurements has led to a range of benefits.

28 The Council has systems in place to support performance improvement and data quality (DQ). The central team works closely with departments to promote a consistent and improving approach to DQ which is now adequately risk managed and becoming embedded.

29 Risk management arrangements are sound and embedded but there are two areas where improvements are still in progress:

- partnership governance, for which reporting and analysis of the financial management arrangements has begun; and
- dedicated member training.

30 The Council demonstrates high ethical values. Internal control is sound and counter fraud and corruption arrangements are of a high standard and working well.

Managing resources

31 Our review of the Council's arrangements for managing its natural resources was based on the work we carried out last year when we found that the Council is getting the basics right in developing plans and gathering good quality information, with key partners, to make effective use of its natural resources.

32 The Council has adequate arrangements in respect of workforce development and is beginning to develop corporate level information and strengthen its workforce planning.

33 In 2009/10 asset management was weak. The foundations of a strategic, corporate asset management system were being developed in 2009/10, along with agreed funding and staffing levels. As a result the Council did not meet minimum requirements in managing its assets to help deliver strategic priorities and service needs for the year 2009/10.

34 The Council has taken action to strengthen its asset management arrangements, in particular by:

- initiating a major review of the Council's property portfolio;
- developing a strategic approach to asset management, incorporating a Corporate Asset Management Plan and a Corporate Property Strategy, overseen by a Corporate Property Group;
- establishing clearer ownership and management arrangements for the corporate property function at member and senior officer level, and
- creating a corporate asset management function which draws together into one place the responsibility for reviewing, approving and delivering best practice in the management of the Council's property portfolio.

Recommendation

R1 Members should ensure that the Council's asset management arrangements are adequate and effective.

Approach to local value for money work from 2010/11

35 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 VFM audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

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

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

37 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

Financial position

38 The wider financial outlook locally and nationally continues to be challenging for the public sector in the short to medium term. As at the period ending 31 July 2010 the Council's General Fund net expenditure is forecast to be in line with budget by 31 March 2011, despite significant budget pressures, particularly within the People, Communities and Society Directorate. All current overspends are expected to be fully offset by a combination of savings (including efficiency savings) in other areas and management actions to reduce financial pressures.

39 The Council has a medium term financial strategy in place for 2011/12 to 2013/14 that sets out the key pressures that are likely to be faced. The strategy includes several assumptions about the level of external finance that will be available and based on these assumptions the Council has determined that savings of £57 million will be required over the next three years.

40 To mitigate the risk of overspend, a "One Council" approach has been implemented - director led reviews to identify and evaluate savings opportunities. The programme aims to transform services to provide value for money to customers at significantly reduced costs. The reviews are now being rolled out and progress is reported monthly to the VFM Delivery Group and subsequently to the VFM Board.

41 The Council will need to ensure that it is flexible enough to adapt to new ways of working, that it is ready to face the potential funding cuts and that it is able to manage services effectively as demand increases and income falls. We will continue to support the Council through our work and in sharing the results of national studies and reports.

International Financial Reporting Standards

42 Local authorities will prepare their Statements of Accounts under the new International Financial Reporting Standard (IFRS) based Code of Practice on Local Authority Accounting from 2010/11. The move to IFRS does not mean wholesale change, but, where changes do occur, a significant amount of work is needed to assess the impact on the accounts. Much of that work needs doing now as the 2009/10 accounts will need to be restated to provide the prior year balances in the 2010/11 accounts.

43 The authority has carried out significant work to date and has also been proactive in reviewing many of the key issues before full guidance is issued. The project is well placed to meet its future milestones and no areas of the project are experiencing difficulties at this stage. There is an IFRS project team and an action plan in place against which progress is monitored regularly by senior officers and the Audit Committee.

44 I will ensure that my team keep an open and helpful relationship with the Finance Team to review early accounting views where required and share good practice from other councils.

Closing remarks

45 The contents of this letter have been agreed with the Chief Executive and the Borough Treasurer. I will present this letter at the next Audit Committee and will provide copies to all board members.

46 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	April 2009
Audit opinion plan	March 2010
Certification of claims and returns - annual report	February 2010
Auditor's report giving an opinion on the financial statements	August 2010
Value for money conclusion	August 2010
Annual governance report	August 2010
Certification of whole of government accounts	October 2010
Final Accounts Memorandum	November 2010
Annual audit letter	November 2010

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

Mark Heap
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£190,000	£190,000	Nil
Value for money	£145,000	£145,000	Nil
Total audit fees	£335,000	£335,000	Nil

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.

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