

AUDIT COMMITTEE	AGENDA ITEM No. 4
9 FEBRUARY 2009	PUBLIC REPORT

Committee Member responsible:	Councillor Hiller, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Director of Strategic Resources John Blair, Head of Strategic Finance Steve Crabtree, Chief Internal Auditor	☎ 452 398 ☎ 384 564 ☎ 384 557

EXTERNAL AUDIT REPORTS

RECOMMENDATIONS	
FROM : PricewaterhouseCoopers	Deadline date : N/A
<p>1. The Committee is asked to consider, and endorse the final reports produced by External Audit in relation to:</p> <ul style="list-style-type: none"> • Final Audit of Statement of Accounts 2007 / 2008: Report to Management • Use of Resources • Review of Data Quality Arrangements 	

1. ORIGIN OF REPORT

This report is submitted to the Audit Committee in line with its Work Programme for 2008 / 2009. The report is submitted by the Council's s151 officer, being part of his statutory duties.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to introduce various commissioned reports from PricewaterhouseCoopers (PwC), the Council's external auditors, in accordance with the Committees' Terms of Reference 2.8.1.5 ("*To consider the external auditors letter, relevant reports, and the report to those charged with governance*"). It is to inform Audit Committee of agreed recommendations following the completion of the reviews.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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4. EXTERNAL REPORTS

- 4.1 During 2008 / 2009, PwC have undertaken various reviews on behalf of the authority. The following report has been received and agreed with senior management.

Appendix A	Report to Management	Issued: January 2009
Appendix B	Use of Resources	Issued: January 2009
Appendix C	Data Quality Arrangements	Issued: December 2008

4.2 Report to Management (Appendix A)

- 4.2.1 The report includes management comments on the auditors observations. The document has been discussed and agreed jointly by the Director of Strategic Resources and the Head of Strategic Finance. All recommendations have been agreed and appropriate timescales and responsible officers have been identified to deliver the necessary changes.
- 4.2.2 The report highlights that the Council has maintained its high standards of Financial Reporting set during the 2006 / 2007 audit. Again, working paper quality and prompt query responses enabled the work to be completed to timescale and with an unqualified opinion.
- 4.2.3 The report highlighted 10 issues to be addressed, 6 of which are medium priority and 4 are low priority.

Summary of Recommendations: Report To Management

	High	Medium	Low	Total
2005 / 2006	5	6	2	13
2006 / 2007	-	2	4	6
2007 / 2008	-	6	4	10

The medium term priorities identified are:

- Further assurance could be obtained over the value of the VAT shelter to be paid each year to provide greater assurance to the Council;
 - A review should be undertaken of property lease arrangements in place to determine whether these are the most suitable terms for the Council, and if not, whether it is possible that the Council can exit the lease;
 - The Council should review of the fixed asset register once depreciation charges have been calculated to ensure that assets with negative values are not included;
 - Introduce a mechanism that makes it a requirement of the contract signing process for the Legal Department to be automatically sent a copy of the contract;
 - The Council should make use of the repeat invoice facility whenever possible and ensure that all debts are written-off in line with standing orders; and
 - Internal Audit recommendations should be implemented on a timely basis.
- 4.2.4 Two issues relating to the Report to Management in 2006 / 2007 have been partially resolved. Steps have been incorporated into the closure process to ensure these are also actioned. Management comments for the 2007 / 2008 issues are detailed in the report.

4.3 Use of Resources (Appendix B)

- 4.3.1 The Use of Resources (UoR) judgement forms part of the Comprehensive Performance Assessment (CPA) of the Council. It is carried out annually by PwC and covers the following areas:
- Financial Reporting;
 - Financial Management;
 - Financial Standing;
 - Internal Control; and
 - Value for Money.

4.3.2 The main basis of the judgement is dependent upon the Council's self-assessment against the Key Lines of Enquiry (KLOE). This self assessment is then audited by PwC and checked for consistency against regional and national benchmarks. The judgement for each area is scored between 1 and 4.

4	Well above minimum requirements - performing strongly
3	Consistently above minimum requirements - performing well
2	At only minimum requirements - adequate performance
1	Below minimum requirements - inadequate performance

4.3.3 The UoR assessment gets harder each year with an expectation of continuous improvement, so a score of 3 in one year may only be sufficient for a 2 in the following year. Furthermore, additional KLOE's can be added each year, with these changes making day to day operations more flexible and responsive to future requirements. In line with the move from CPA to Comprehensive Area Assessment (CAA), changes are incorporated that will replace the current UoR in 2009. These are split into 4 revised themes.

4.3.4 Appendix B is the PwC report for the UoR for 2008 which covers the period to March 2008. The overall assessment is a 3 - performing well. While this is the same score as was achieved in 2007, the Council has improved on a number of themed scores compared with the previous years.

	2008	2007	2006	2005
FINANCIAL REPORTING • How good are the councils financial accounting and reporting arrangements?	4	4	2	1
FINANCIAL MANAGEMENT • How well does the council plan and manage its finances?	3	3	2	1
FINANCIAL STANDING • How well does the council safeguard its financial standing?	3	3	2	2
INTERNAL CONTROL • How well does the council's internal control environment enable it to manage significant business risks?	3	2	2	2
VALUE FOR MONEY	2	2	2	2
OVERALL JUDGEMENT	3	3	2	2

4.3.5 Particular achievements in the year are:

- Working papers provided by Strategic Finance have been reported to the Audit Commission as an example of notable practice;
- New financial instruments requirement introduced in the Statement of Recommended Practice were met;
- Continued improvement in financial and asset management arrangements in 2008;
- Sound financial standing;
- All internal control KLOE scores have improved to a level 3, highlighted by improvements in managing risk, sound assurance on internal control systems; and actions in fraud and probity; and
- Business transformation delivering increased savings and efficiencies.

4.4 Review of Data Quality Arrangements (Appendix C)

4.4.1 PwC annually undertake a review of the council's data quality arrangements. The review focuses on all aspects of data quality at a corporate level and is also linked to the requirement for PwC to conclude on the council's use of resources.

4.4.2 The review is a three stage approach.

- **Stage 1:** Management arrangements.
- **Stage 2:** Completeness check.
- **Stage 3:** Data quality spot checks.

4.3.3 In summary, the results show an improvement overall across the Council which is demonstrated by the overall score reported as a "3" (*Consistently above minimum standards - performing well*). This is an increase from the previous years score of 2. Recommendations are currently being reviewed and implemented by the relevant services.

5. CONSULTATION

The various appendices have been discussed, and actions agreed by senior management at various times before being finalised.

6 ANTICIPATED OUTCOMES

Acknowledgement of the works undertaken by External Audit and to endorse the Action Plans they have produced in consultation with senior management to improve future processes.

7 REASONS FOR RECOMMENDATIONS

The Management Report provides details for improvements in the final accounts processes and an effective action plan to ensure future improvement. Audit Committee to note the contents of the report and to comment on issues identified within the various commissioned works.

In order for the Council to move towards its goal of excellence it is essential that the progress made to date in the area of UoR is built upon. This progress is against a measure that is getting more difficult.

8 ALTERNATIVE OPTIONS CONSIDERED

None.

9 IMPLICATIONS

Implications have been identified separately in each agreed Action Plan.

10 BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)