

# Annual Audit Letter

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Taunton Deane Borough Council

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Audit 2008/09

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December 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 28 September 2009.

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## Financial Statements

- 2 As a result of our audit a small number of adjustments to the statements were agreed with officers and the statements were amended accordingly.

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## Value for money

- 3 I issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

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## Audit fees

- 4 We reported our planned fees to the Council as part of our 2008/09 Audit Plan and supplementary opinion fee letter. Table 1 compares the actual fee with the planned fee.

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**Table 1**      **Audit fees**

|  | <b>Actual (£)</b> | <b>Proposed (£)</b> | <b>Variance (£)</b> |
|--|-------------------|---------------------|---------------------|
| Financial statements and annual governance statement | 66,621            | 66,621              | -                   |
| Value for money                                      | 29,561            | 29,561              | -                   |
| <b>Total audit fees</b>                              | <b>96,182</b>     | <b>96,182</b>       | -                   |

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### Action needed by the Council

5 The Council needs to:

- respond to the areas for further improvement to the Council's arrangements identified through the use of resources judgement;
- implement the agreed recommendations from our Annual Governance Report; and
- continue to monitor Southwest One's delivery, to ensure that benefits realisation and the transformation of services is delivered on time and within budget.

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### Independence

6 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

- 7 I issued an audit report including an unqualified opinion on the financial statements on 28 September 2009.
  - 8 A small number of errors have been identified from our audit of the financial statements, the most significant of these being a mis-classification in respect of costs of £1.9million in respect of the development of the SAP corporate systems. The Council had shown these costs as intangible fixed assets rather than assets under construction.
  - 9 The accounts have been amended to reflect all the errors identified.
- 

## Material weaknesses in internal control

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

## Accounting Practice and financial reporting

- 11 I considered the qualitative aspects of your financial reporting.
- 12 The Council did not have any arrangement in place during 2008/09 for journals, which can only be input to the general ledger by finance staff, to be authorised by a second member of staff. As part of our audit this year, we asked for retrospective authorisation of all the larger 2008/09 journal entries.
- 13 The Council has agreed with Southwest One, its financial services provider, that a system of sample checks be introduced in the current year.

# 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

- 14** In forming my scored use of resources judgements, I have used the methodology set out by the Audit Commission. Judgements have been made for each key line of enquiry (KLOE) under three main themes: managing finances, governing the business and managing resources.
- 15** The Audit Commission's scoring methodology is as follows.
- Level 1 - inadequate and below minimum standards
  - Level 2 - adequate
  - Level 3 - performing well
  - Level 4 - performing strongly.
- 16** The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

**Table 2** Use of resources theme scores

| Use of resources theme | Scored judgement |
|------------------------|------------------|
| Managing finances      | 2                |
| Governing the business | 2                |
| Managing resources     | 2                |

- 17** The Council has achieved Level 2 - adequate performance - for each of the three Use of Resources themes and for all the key lines of enquiry (KLOEs) under those themes. Beneath those overall judgements, we have identified some areas within each KLOE where the Council's arrangements fall below the level that might be expected. The Council needs to give priority to addressing these weaknesses, and we have agreed an action plan with officers to help them deliver that improvement.

## Value for money and use of resources

**18** This year's audit confirmed that lack of capacity in some key areas remains a crucial issue for the Council. The Core Council Review, a major staff re-structuring exercise based on a thematic working model, should have been completed and new structures fully in place by the end of this financial year. In the longer-term, the new structures are intended to make the Council more fit for purpose, more efficient and better positioned to deliver its strategic priorities. In the short-term, the review process and staffing changes from the implementation of the new structures have caused some disruption to the management and delivery of key corporate services, thereby adding to the Council's capacity issues. This is reflected in some of the weaknesses we identified from our use of resources audit.

## Managing finances

**19** The Council has a well-established medium-term planning process, which links to its corporate priorities. It sets budgets which are realistic and achievable. The medium – term financial plan shows significant funding gaps for future years, but the Council has a good track record of meeting or beating its efficiency targets. For the 2009/10 budget, there were a number of late changes to the budget and a focus on the short rather than the medium term. Treasury management is sound and effective, providing a good balance between safety and value for money.

**20** The Council has a sound understanding of costs and performance but makes relatively little use of benchmarking and lacks sufficient knowledge of whether it delivers good value for money compared to other councils. It has identified scope for making efficiencies in several areas and has been very successful in achieving these, often using innovative means. However, there is more scope to identify efficiency savings in services which do not represent good value for money compared to other similar councils.

**21** The Council's financial monitoring is timely, reliable and understandable. Budget monitoring reports focus on high risk areas, and clearly highlight the significant variances, reasons for these and action needed to address them. Financial information is presented alongside performance information in the quarterly monitoring reports to members, although the Council has more to do in bringing this information together. For 2008-9, more resources have been provided for the accounts closure process, and this has secured significant improvements in the quality of the draft financial statements and supporting working papers.

**22** Key areas for improvement:

- update the Information Technology and workforce strategies and ensure these are clearly linked to the Council's medium-term financial plan;
- give adequate consideration to the medium term when setting the annual budget;
- ensure there is appropriate public consultation on the annual budget;
- make greater and more effective use of benchmarking to challenge costs and service performance; and
- establish stronger links between financial and performance monitoring.

### Governing the business

- 23** The Council has a sound vision of the outcomes it is looking for, but needs to improve its understanding of the diverse needs of the local community and to bring equalities and needs assessment work up to date. The Council is innovative in integrating and improving services and reviews services for competitiveness, value for money and success in meeting wider objectives.
- 24** The Council has adequate arrangements in place for data quality at the corporate level, and recent improvements have been made to its systems for ensuring data quality. However, sample checks by internal audit on two national indicators - NI155 (new affordable housing) and NI179 (efficiency gains) highlighted significant weaknesses in the processes for producing these indicators.
- 25** The Council is challenging the way officers and members work together to deliver the Council's priorities. The Council's management structures are in the process of radical review. The Council's vision of what it wants to achieve for the local community is set out through the annually updated Corporate Strategy. Progress against targets is monitored through quarterly performance reports to members.
- 26** The Council has the required arrangements in place to ensure compliance with standards of conduct, but needs to develop a more proactive approach in promoting ethical behaviour. The Council is involved in a number of major partnerships covering key aspects of its business and regularly monitors their performance, but it needs to develop a structured approach covering all significant partnerships.
- 27** Risk management is not yet effectively embedded across the Council. There are areas of good practice, especially for projects, but arrangements at the corporate and service levels are weak. Anti-fraud arrangements are generally sound and are given a high profile, but the Council is not meeting its targets for numbers of prosecutions and other sanctions. Internal controls generally worked effectively during 2008/09, but there were some areas of concern, such as systems documentation and business continuity planning, and the Corporate Governance Committee needs to drive improvement in these areas.
- 28** Key areas for improvement:
- bring the equalities assessment work up to date, and ensure that outcomes are reflected in service and financial plans;
  - update the procurement strategy to bring it into line with good practice;
  - introduce effective quality assurance arrangements for all performance indicators produced by the Council;
  - use the Council's Governance Code to drive improvements in governance arrangements;
  - provide members with regular reports showing how well the Council's major risks are being managed;

## Value for money and use of resources

- address the weaknesses identified by Internal Audit in the Council's disaster recovery arrangements; and
- ensure there are up to date corporate and service-level business continuity plans and that these are regularly tested.

### Managing resources (workforce planning)

- 29** The Council has in place a broad range of effective processes and systems to manage and develop its workforce. Approaches to recruitment are well established; there is central monitoring of recruitment activities to inform the Council of the most effective methods of advertising vacant positions. Recruitment methods are modern and include web-based application procedures.
- 30** There are a wide range of employee-friendly policies in place The latest staff surveys show the Council is highly rated as an employer and that the majority of staff enjoy their work. The Council has however, experienced sustained high levels of sickness absence. New policies and interventions have had some success in reducing short term sickness absence, although the Council's sickness levels remain amongst the worst nationally.
- 31** Training and development opportunities are well established and there are clear processes for performance reviews and appraisals. Communications across the Council are well developed and seen by staff as being effective. The Council has implemented major organisational changes through the Southwest One initiative and Core Council Review, and communications have been enhanced in order to engage staff during these changes. These significant organisational changes have overtaken the Council's existing workforce plan which is now out of date.
- 32** Key areas for improvement:
- update the Council's workforce strategy;
  - gather up to date information on staff attitudes and agree appropriate issues to address any concerns identified;
  - use data on staff equalities issues and customer feedback on equalities to identify action needed; and
  - consider further action needed to reduce staff sickness absence rates.

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### VFM Conclusion

- 33** 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 1.
- 34** 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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**Specific risk based work**

**Follow up of review of Southwest One**

- 35** We have followed up progress on issues raised in our review of Southwest One reported to the Council in September 2008.
- 36** Taunton Deane Borough Council, Somerset County Council and the Avon and Somerset Police Authority were the lead bodies in a procurement process, which asked the private sector to provide a number of back office services. The chosen solution was for the establishment of a Joint Venture Company in partnership with IBM called Southwest One (SWOne).
- 37** The contract with SWOne commits the latter to help the Council achieve procurement savings, upon which the affordability of the contract with SWOne is dependent. The savings target for the Council over the ten years of the SWOne contract is £10 million. Savings achieved to date are in the range £250,000 to £300,000, broadly in line with the profiled target. However, the savings targets are more challenging for the future years of the contract and the Council will need to continue to monitor closely actual savings against the profiled targets, including regular reporting to members.
- 38** The transfer of a number of financial services to the SAP system from 1 April 2009 has encountered a number of problems. These have resulted in:
- significant delays in paying invoices for goods and services received and in raising invoices for services provided;
  - the normal system controls being overridden to make payments, increasing the risk of incorrect or fraudulent payments being made;
  - delays in taking recovery action on unpaid debts;
  - less timely and reliable budget monitoring information being available to budget holders; and
  - extra demands on staff time in dealing with all these problems.
- 39** Officers have told us that the majority of the more serious problems have been resolved. However, the ability to undertake comprehensive budget monitoring for some services is still dependent on a small number of system links being correctly implemented.
- 40** Taunton Deane Borough Council and Somerset County Council have asked their internal auditors, the South West Audit Partnership (SWAP) to review the operation of the controls within the financial systems now provided within SAP and to identify any remaining weaknesses that need to be addressed. We are liaising closely with SWAP during this review and will coordinate our testing of the key controls closely with theirs during the remainder of our audit of the 2009/10 financial accounts in order to maximise the efficiency of our combined audit work.

## Value for money and use of resources

- 41 The Council needs to ensure that councillors continue to be kept fully informed of any significant contract issues as they arise and that appropriate action is taken to address any shortcomings. Contract monitoring and management, and the realisation of the expected benefits from the contract, remain a high priority. We will continue to review developments as part of future audits.

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# Closing remarks

- 42** I have discussed and agreed this letter with the Council's Management Team. I will present this letter to the Corporate Governance Committee on 10 December 2009 and will provide copies to all committee members.
- 43** 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 3**

| <b>Report</b>                        | <b>Date issued</b> |
|--------------------------------------|--------------------|
| Audit Plan 2008/09                   | April 2008         |
| Supplementary fee letter             | June 2009          |
| Use of Resources Report              | September 2009     |
| Annual Governance Report             | September 2009     |
| Auditor's opinion and VFM conclusion | September 2009     |
| Final Accounts Report                | November 2009      |

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- 44** 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.

Brian Bethell  
 District Auditor  
 December 2009

# Appendix 1 – Use of resources 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</b>  | <b>2</b>   |
| <b>KLOE 1.1 (financial planning)</b>  |            |
| <b>Score</b>  | <b>2</b>   |
| <b>VFM criterion met</b>  | <b>Yes</b> |
| <b>Key findings and conclusions</b>   |            |
| <p>There are close links between the Council's corporate plan, service plans and medium-term financial plan. However, the Information Technology (IT) and Workforce Strategies need to be updated and the links from these to financial planning are weak. The robustness of the budget process is evidenced by the Council's good track record in delivering expenditure within budget. There are effective processes for communicating key financial messages to staff and members. However, there was limited public consultation on the 2009/10 budget and insufficient focus on the medium-term. The Council clearly identifies future budget shortfalls within the Medium Term Financial Plan, and members are regularly updated on progress in addressing these. The Council sets challenging targets for income collection, and performance against these is closely monitored.</p> |            |

## Appendix 1 – Use of resources key findings and conclusions

|  |                                   |
|--|-----------------------------------|
| <p><b>KLOE 1.2 (understanding costs and achieving efficiencies)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>  | <p><b>2</b></p> <p><b>Yes</b></p> |
| <p>Key findings and conclusions</p>  |                                   |
| <p>The Council has a sound understanding of costs and performance. However, it makes insufficient use of benchmarking and so cannot be sure that it is delivering value for money services for local residents. Managers and councillors make appropriate use of costing and performance information in their decisions, using information which is generally of reasonable quality. The Council's Project Approval Report process provides a good template for appraising specific capital projects. The Council has identified scope for making efficiencies in several areas and has been very successful in achieving these, often using innovative means. However, there is more scope to identify efficiency savings in services which do not represent good value for money compared to other similar councils. Overall, the Council delivers planned outcomes at relatively low cost compared to similar councils, although there are areas of poorer performance.</p>   |                                   |
| <p><b>KLOE 1.3 (financial reporting)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>   | <p><b>2</b></p> <p><b>Yes</b></p> |
| <p>Key findings and conclusions</p>  |                                   |
| <p>The Council's financial monitoring is timely, reliable and understandable. The Council produces regularly and timely financial reports to officers and members which highlight the key issues and have helped to ensure that prompt and effective corrective action is taken where necessary, as shown by the Council's track record in setting balanced budgets and then delivering expenditure within these. Financial information is presented alongside performance information in the quarterly monitoring reports to members, although the links between these need to be strengthened. For 2008-9, more resources have been provided for the accounts closure process, and this has secured significant improvements in the quality of the draft accounts and supporting working papers. The accounts and key report are available on the website, and the Council has taken action to ensure this information is more accessible following consultation with local equalities and hard to reach groups.</p> |                                   |

## Appendix 1 – Use of resources key findings and conclusions

### Governing the business

|   |            |
|---|------------|
| <b>Theme score</b>  | <b>2</b>   |
| <b>KLOE 2.1 (commissioning and procurement)</b>   |            |
| <b>Score</b>  | <b>2</b>   |
| <b>VFM criterion met</b>  | <b>Yes</b> |
| Key findings and conclusions  |            |
| <p>The Council has a sound vision of intended outcomes but needs to improve its understanding of the diverse needs of the local community upon which this vision is based. There is a lot to do to bring equalities and needs assessment work up to date. The Council involves service users and wider community in most, not all stages of commissioning, but needs a strategic and coordinated approach. The Council is innovative in integrating and improving services so local people see improvements in quality and value for money. Working with the private sector, officers and councillors have an excellent understanding of the supply market and the Council is starting to work to influence this in the longer-term. The Council has effective arrangements for specifying and monitoring contracts. The Council reviews services for competitiveness, value for money and success in meeting wider objectives, but not all services have been reviewed. The Council is involved in several successful partnerships to increase efficiency. The procurement strategy needs updating to bring it into line with current practices.</p>   |            |
| <b>KLOE 2.2 (data quality and use of information)</b>   |            |
| <b>Score</b>  | <b>2</b>   |
| <b>VFM criterion met</b>  | <b>Yes</b> |
| Key findings and conclusions  |            |
| <p>Several recent improvements have been made to the Council's systems for ensuring data quality but it is too soon to determine the extent to which these have had an impact. The Data Quality Strategy was approved in March 2009. Roles and responsibilities for data quality are clear, and training and awareness briefings have been held to support the implementation of the new strategy and guidance is available on the intranet and in staff handbooks. Sample testing of the arrangements for producing the national indicators identified weaknesses in quality assurance processes which need to be addressed. Performance reports are well established and set out financial and performance data against identified targets. Partnership performance is not covered well: data from Southwest One is included, but there is no detail relating to any of the other partnerships in which the Council is engaged. Arrangements for data security are adequate, with a standard range of information security policies in place. Systems are tested regularly to ensure data integrity and recovery in the case of IT incidents. The Council complies with Government Connect standards.</p> |            |

## Appendix 1 – Use of resources key findings and conclusions

|  |                                   |
|--|-----------------------------------|
| <p><b>KLOE 2.3 (good governance)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>   | <p><b>2</b></p> <p><b>Yes</b></p> |
| <p>Key findings and conclusions</p>  |                                   |
| <p>The Council's management structures are in the process of radical review, with a move to a thematic rather than function based structure. Work is in progress in developing personal development plans for all members, with several having gone through a pilot exercise. The Council's vision of what it wants to achieve for the local community is set out in the annually updated Corporate Strategy. Progress against targets is then monitored through quarterly performance reports to members. The Council has the required arrangements in place to ensure compliance with standards of conduct, supported by regular ethics training and guidance for members. The Council has adopted a local Code of Governance, but has made little use of this as yet to drive the governance agenda. The Standards Committee advertises its role on the website and produces an annual report, but it has yet to develop a proactive role in promoting ethical behaviour. The Council is involved in a number of major partnerships covering key aspects of its business, and for all these there is a project group, formal partnership agreement, risk register, nominated responsible director, and regular reporting to members on the key financial and performance issues for each partnership. These reports show that there have been improvements in performance and efficiency across a wide range of services covered by the partnerships, such as improved recycling rates, cost savings from support services and improved quality of internal audit.</p>  |                                   |
| <p><b>KLOE 2.4 (risk management and internal control)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>  | <p><b>2</b></p> <p><b>Yes</b></p> |
| <p>Key findings and conclusions</p>  |                                   |
| <p>Risk management is not yet effectively embedded across the Council. For major projects and partnerships, there are risk registers and there are a number of examples of the Council using risk management effectively in managing projects. However, at service level, the quality and use of the registers is patchy. The corporate risk register is currently being revised, and the Council is now taking action to ensure that all its registers are in the same format. There has been no process to date to provide the Management Team or members with regular assurance that all key risks across the Council are being effectively managed. The Council has an anti-fraud and benefits fraud strategy, supported by staff fraud awareness training and a clear prosecution policy, and has arrangements in place to monitor delivery against these strategies. There is good joint working with the Department of Work and Pensions on benefit fraud and wide publicity for successful prosecutions. In 2008/09 there was an increased focus on proactive work, although the Council was still some way short of its target for number of sanctions. The Council's internal audit meets the key professional requirements and provides broad annual coverage of the main financial systems. The Corporate Governance Committee has a strong membership and provides robust challenge, but there is no structured process for following up agreed actions from internal or external audit. Internal audit have confirmed in their annual report that they have not identified any serious control weaknesses from their 2008/09 testing of the key financial systems, although they did identify weaknesses in disaster recovery arrangements, leaving the Council at increased risk in the event of a major IT incident.</p> |                                   |

## Appendix 1 – Use of resources key findings and conclusions

### Managing resources

|  |            |
|--|------------|
| <b>Theme score</b>   | <b>2</b>   |
| <b>KLOE 3.3 (workforce planning)</b>   |            |
| <b>Score</b>   | <b>2</b>   |
| <b>VFM criterion met</b>   | <b>Yes</b> |
| <b>Key findings and conclusions</b>  |            |
| <p>The Council has in place a broad range of effective processes and systems to manage and develop its workforce. Recruitment methods are modern and include the option to use the Council's website to apply for work with the Council. There are a wide range of employee-friendly policies in place. The latest staff surveys show that the Council is highly rated as an employer and that the majority of staff enjoy their work. The Council has, however, experienced sustained high levels of sickness absence. New policies and procedures have had some success in reducing short term sickness absence in particular, although the Council's performance remains amongst the worst performing. There are clear processes for performance reviews and appraisals. Communications across the Council are well developed and seen by staff as being effective. The Council has implemented major organisational changes through the Southwest One contract and Core Council Review, and communications have been enhanced in order to engage staff during these changes. The Council's workforce plan needs to be updated to bring it into line with these changes. Equalities and diversity arrangements have been improved to provide greater focus on the key issues.</p> |            |

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# The Audit Commission

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Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212, Fax: 0844 798 2945, Textphone (minicom): 0844 798 29461

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