

Annual Governance Report

Adur District Council

Audit 2008/09

Date

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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.
-

Members of the Constitution and Audit Committee

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Chief Executive and Executive Head of Financial Services on 18 September 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 5);
- agree your response to the proposed action plan (Appendix 7); and
- consider the matters raised the report before the financial statements are authorised for issue by the Section 151 Officer.

Yours faithfully

Helen Thompson
District Auditor
28 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from error	No	7
Adequate internal control environment	Yes	13
Use of resources	Results	Page
Adequate arrangements to secure value for money	Yes	19

Audit opinion

- 1 The audit of the financial statements is now complete. I plan to issue an unqualified opinion on the financial statements.

Financial statements

- 2 The financial statements submitted for audit did not meet minimum standards and showed qualitative deterioration from the previous period. The accounts presented for audit contained a significant number of errors, including some errors with a material impact, across all of the primary statements. The statements were also not subject to a robust quality review prior to approval by committee. This was due to slippage against the timetable to closedown the general ledger and produce the accounts. Working papers to support the audit of the financial statements were adequate overall.
- 3 There are a number of factors that contributed to the relatively poor quality of the statements produced:
 - All primary statements of account are relevant at the Council and in general there is a high level of inherent technical complexity in the Council's accounts.
 - There remain problems with fundamental processes and systems such as cost allocation and the coding structure on the general ledger. A relatively high level of manual intervention is required to produce the financial statements which makes closedown of the general ledger more complex and prone to error. This also reduces the amount of time available to conduct a thorough quality review of the

Key messages

draft statements prior to approval by committee. This is recognised by officers and a full review of the cost allocation structure and complete overhaul of the coding structure on the general ledger is planned to take place during 2009/10.

- The migration of some Financial Services staff from Adur Civic Centre to Worthing Town Hall caused us to twice amend the timetabling and schedule of resources for our planned programme of work at the Council. The move also caused other logistical difficulties and short term IT problems which limited officer access to some systems. These factors, coupled with the high level of errors in the draft accounts, increased the amount of audit time necessary to discharge our responsibilities in relation to the financial statements. Joint working between Adur and Worthing Financial Services should reduce the risk of similar difficulties re-occurring in the future.
- The internal financial control environment at the Council, although more robust than in previous years, has clear scope for further improvement.

Use of resources and value for money (VFM)

- 4 I have assessed how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people. My assessment considers how well the Council performs across three areas:
 - managing finances
 - governing the business
 - managing resources
- 5 The Council is performing adequately across all of these areas. Full details of my judgements are set out in Appendix 6.
- 6 Based on our work in this area I have concluded that the Council has adequate arrangements in place to secure value for money. I therefore plan to issue an unqualified VFM conclusion.

Audit Fees

- 7 I reported my best estimate of the audit fee needed to complete the opinion audit to the Constitution and Audit Committee on 29th June in the 2008/09 Supplementary Opinion Audit Plan. The agreed fee of £82,500 was not adequate to discharge my responsibilities in this area. This was because of the relatively poor quality of the financial statements submitted for audit, high level of error, and re-scheduling of the audit caused by the sharing of Adur and Worthing Financial Services at the post-statement stage. We therefore propose to bill the Council a supplementary fee of £10,000 which reflects the additional work necessary to discharge my responsibilities at the post-statement stage of the audit.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

8 I ask the Constitution and Audit Committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion and Use of Resources score;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 5);
- agree your response to the proposed action plan (Appendix 7); and
- consider the matters raised the report before the financial statements are authorised for issue by the Section 151 Officer.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 9** I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
-

Errors in the financial statements

- 10** We have identified a number of errors and uncertainties in relation to the specific audit risks that we reported to you in the Supplementary Opinion Audit Plan. The risks we identified, and our audit findings in respect of the identified risks, are set out in Table 1 of this report (page 15). Adjusted amendments to the financial statements are set out in Appendix 2. Misstatements in the accounts that management has declined to adjust are set out in Appendix 3. Non-trivial uncertainties in the financial statements are set out in Appendix 4. We are satisfied that unadjusted errors identified are not material individually or in aggregate.
- 11** During the course of the audit we identified a number of capital accounting errors and uncertainties, which are set out in more detail over the following paragraphs 12 to 20.
- 12** The valuation of the Council's land and buildings is likely to have been adversely affected by the economic downturn. An impairment review to establish the extent to which the general fall in market prices had impacted on the value of its fixed assets was commissioned by Finance, but this was not undertaken. The reduction in value of Council assets was therefore not accounted for in the financial statements. The Council re-values all of its fixed assets except council dwellings once every five years, with the last revaluation undertaken as at April 1st 2005. Publicly available indices showing trends in asset values suggest that assets carried at market value in the balance sheet have decreased by between 26 and 28 per cent since the last valuation. An adjustment to the carrying value of assets held at a market value in the Balance Sheet of £5.3 million and charge to the Income and Expenditure Account (I&E Account) of £4.7 million has been made to account for the impairment of those assets caused by the economic downturn. Note that the additional charge to I&E is reversed to the Capital Adjustment Account via the Statement of Movement in the General Fund Balance and therefore has no impact on the Council's balances and reserves.
- 13** HRA assets were last re-valued on 1st April 2008 at the start of the year of account. The economic downturn has also impacted on the value of these assets. An impairment review had not been undertaken to assess the extent of the reduction in value of HRA assets during the period. Publicly available indices showing trends in

asset values suggest that these properties have decreased between 16 and 19 per cent during the year. An adjustment to the carrying value of HRA assets in the Balance Sheet of £32.8 million and charge to the HRA and Income and Expenditure Account of £15.6 million has been made to account for the impairment of those assets caused by the economic downturn. Note that the additional charge to the HRA is reversed to the Capital Adjustment Account via the Statement of Movement on the HRA and therefore has no impact on the Council's balances and reserves. Where there is a clear indication of impairment of asset values, for example the economic downturn, the Council's valuer should ensure that all of its assets are reviewed annually to assess and account appropriately for impairments that have occurred. See recommendation 1.

- 14** During the period the Council disposed of Golden Sands caravan site which had been used as temporary accommodation for the homeless. The land and caravans had been recognised as relating to the Housing Revenue Account (HRA) in the Council's Balance Sheet, but the capital receipt arising from the disposal had been accounted for as relating to the General Fund.
- 15** We have investigated the legal powers used to purchase and provide the asset to determine whether it should properly relate to the General Fund or HRA. The site land had been purchased using General Fund legal powers and monies and therefore clearly relates to the General Fund. The caravans have been used to provide accommodation to the homeless, which is a duty under the Housing Act 1996. Housing subsidy had also been claimed by the Council in relation to the caravans in previous years. The caravans therefore properly relate to the HRA. Both the land and caravans should have been transferred from operational to non-operational assets in the Council's fixed asset register at the time the site became vacant in May 2008. Separate market valuations of the land and caravans should also have been determined at this point in time. Work to determine market valuations for the land and caravans as at May 2008 has now been retrospectively undertaken by the Council's valuer. Based on this £821,000 of the capital receipt for the disposal relates to the General Fund land and £129,000 relates to the HRA caravans. Regulations require that seventy-five per cent of the HRA related capital receipt (approximately £97,000) should be transferred to central government.
- 16** Adjustments have been made to the classification of the assets in the Balance Sheet, the valuation of the assets in the Balance Sheet and the calculation of profit or loss on disposal in the HRA and I&E Account to correct these errors. The transfer of approximately £97,000 of the HRA capital receipt to central government has also been reflected in the amended financial statements. This additional transfer reduces the HRA balance by £97,000. As part of ongoing work to improve the quality of data on the Council's fixed asset system the categorisation of assets between the HRA and General Fund should be reviewed for accuracy. See recommendation 2.
- 17** As part of our audit work we identified £493,000 of officer salaries that had been capitalised during the period. Having considered the capitalised costs against the detailed criteria for capitalisation set out in the Local Government Statement of Recommended Practice (SORP) it is not clear that some or all of the costs should properly have been capitalised. We also noted that the bases used by the Council to apportion salary costs to capital budgets are based on historic information and are not clearly supported. There were also errors in the total salary costs apportioned. For

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example, the whole salary cost of the Head of Financial Services had been considered in the calculation rather than the proportion of the costs relating to Adur only under joint working arrangements with Worthing Borough Council. See recommendation 3.

- 18** The Council has made amendments to the financial statements to impair the capitalised salaries to reflect that they have not added to the value of fixed assets in the Balance Sheet. No adjustment has been made to the value of salaries capitalised and this issue constitutes an unadjusted non-trivial uncertainty of £493,000 relating to the General Fund balance. In the future the Council should have regard to the detailed criteria set out in extant financial reporting standards and the Local Government SORP when determining whether expenditure should be capitalised. See recommendation 4. We also identified £300,000 of other capital expenditure that did not add to the value of fixed assets in the Balance Sheet which was incorrectly written down to the Revaluation Reserve rather than the Capital Adjustment Account. The financial statements have been amended to correct this.
- 19** Disposals of HRA fixed assets during the period were written out of the financial statements at Existing Use Value. HRA assets are, however, disclosed in the financial statements at the significantly lower Existing Use Value – Social Housing. As a result the value of HRA assets disposed of disclosed in the Balance Sheet, which included the book value Golden Sands of £893,000, was £1.159 million over-stated. This had a consequential impact on the calculated profit or loss on disposal which impacted on a number of other primary statements of account. The financial statements have been amended in respect of this finding. The Council should ensure that values written out of the financial statements for fixed asset disposals accord with the carrying value of those assets in the accounts. See recommendation 5.
- 20** The profit on disposal of £57,000 for HRA assets initially disclosed in the financial statements simply reflected the part of the capital receipt arising from the disposal that was retained by the Council under regulations requiring a proportion of HRA capital receipts to be passed over to central government. The profit or loss on disposal disclosed should reflect the difference between the book value of the asset at the time of disposal, plus any associated costs of disposal, less the capital receipt. On this basis the profit for HRA assets disposed of in the period should have been approximately £127,000. The financial statements have been amended in respect of this finding. The Council should ensure that the calculation of profit or loss on disposal of fixed assets accords with the methodology set out in the Local Government SORP. See recommendation 6.
- 21** During 2008/09 changes were made to the Pensions SORP to ensure compliance with the requirements of FRS 25 and 26. These amendments are also reflected in the Local Government SORP that governs the production of the Council's financial statements. The main change relates to the valuation of pension fund investments from mid-market price to fair value, usually bid price. Adjustments made to the financial statements to reflect this change in accounting policy, with a total value of £170,000, were initially disclosed as an adjustment to prior period comparative information. However, the required adjustments are not sufficiently large to fundamentally affect the view of a user of the statements. The adjustments therefore do not meet the requirements for a prior period adjustment having regard to the requirements of FRS3, and should have been made during the current financial year. The financial statements have been

amended in respect of this finding. Reference should be made to the requirements of extant financial reporting standards when determining the treatment of items in the financial statements.

22 We noted a number of differences between the trial balance analysis produced from the general ledger at year end and the financial statements as follows:

- gross differences of £185,000 relating to the Collection Fund;
- gross differences of £240,000 relating to the I&E Account;
- gross differences of £9,000 relating to the HRA; and
- gross differences of £4.2 million relating to debtors and creditors in the Balance Sheet.

These differences were primarily caused by errors in the coding structure and trial balance on the Council's general ledger, for example creditors appearing within debtors codes and vice versa. Difficulty in closing the general ledger also led to a lack of time to conduct a thorough quality assurance review of the draft statements prior to approval by committee. The Council undertook work during the course of the audit to re-produce the trial balance from the general ledger and prove the accuracy of the balances in the financial statements. The Council plans to review its general ledger coding structure during 2009/10. This should help to accelerate and improve the accuracy of year end closedown of the ledger allowing the statements to be produced earlier, which in turn will allow for a more comprehensive reasonableness review of the drafts to be undertaken prior to approval. See recommendation 7.

23 We noted a number of minor rounding differences between opening 2008/09 balances on the general ledger and closing balances reflected in the audited 2007/08 financial statements.

24 The presentation of pay costs for senior officers who manage services and staff for Adur District Council and Worthing Borough Council under the joint management structure between the Councils was based only on basic pay costs. The value of remuneration shown in the financial statements should properly reflect all sums paid to or receivable by an employee, expense allowances chargeable to tax and the monetary value of benefits. The presentation of the pay costs for Adur officers outside of the joint management structure but who are paid in excess of £50,000 per annum was also not correct in the initial draft of the statements. Amendments have been made to Note 7 to the financial statements in respect of these findings.

25 The annual depreciation charge for land and buildings was £19,000 greater on the Council's fixed asset register than in the financial statements. The financial statements have not been amended in respect of this finding and it is reported as an unadjusted misstatement at Appendix 3.

26 As part of the audit of Adur and Worthing Joint Committee we identified expenditure relating to a trade refuse vehicle lease. Further examination revealed that this lease has yet to be signed and, as such, any expenditure would not relate to 2008/09. The Council actually purchased this asset in August 2007 for approximately £123,000. The expenditure incurred to purchase the asset has not, however, been capitalised or shown as financed in the Council's accounts. The expenditure has been incorrectly

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posted to a 'leasing holding account' which is disclosed within debtors on the Council's balance sheet. The value of the asset should therefore be reclassified from debtors to Fixed Assets in the Balance Sheet. The asset also should have been depreciated with a charge of £17,500 being made to the Income and Expenditure Account. Finally, an asset hire charge should be levied in the accounts of Adur and Worthing Joint Committee. The financial statements of both the Council and Adur and Worthing Joint Committee have been amended in respect of this finding. In the future the Council should ensure that all capital acquisitions are included within fixed assets on the Balance Sheet and properly financed, irrespective of any future intention to sell and lease back the asset. See recommendation 8.

- 27** As part of our work we tested 18 cash payments from March, April and May 2009 to assess whether the Council's cut off procedures were adequate to ensure that income and expenditure is accounted for in the correct accounting period. This testing identified two errors. We identified one cash payment made in April 2009 relating to the 2009/10 financial year that had been erroneously accrued back to 2008/09. We identified one further cash payment made in May 2009 relating to 2008/09 that had not been accrued for in the financial statements. Given that we concluded the errors were random rather than systematic in nature we were able to extrapolate our findings to estimate the likely total impact on the financial statements. This meant that we were not required to carry out any further detailed testing in respect of the issue. The gross value of the extrapolated errors is approximately £133,000, the net value of the errors is approximately £79,000. These extrapolated errors are not material, but are non-trivial in the context of the audit opinion. No amendments to the financial statements have been made in respect of this finding given that the total value of the identified errors has been extrapolated and is therefore only an estimate of the likely impact. This has therefore been reported as a non-trivial uncertainty at Appendix 4. In the future the Council should seek to strengthen year end cut-off procedures as part of its accounts closedown plan to ensure that income and expenditure is accounted for in the correct period. See recommendation 9.
- 28** Our testing of debtors appearing in the Balance Sheet identified approximately £340,000 of receipts in advance that had been erroneously netted off debtors on the general ledger and in the financial statements. The error was caused by a failure to establish and use a discrete receipts in advance code and is indicative of wider weaknesses in the coding structure on the general ledger. The error has the impact of overstating debtors and understating creditors in the financial statements by approximately £340,000. The financial statements have been amended in respect of this finding. To avoid repetition of this problem in the future a discrete code on the general ledger should be established to account for receipts in advance. See recommendation 10.
- 29** Commitments under capital contracts outstanding at the Balance Sheet date of £7,404,000 disclosed at Note 18 to the financial statements were over-stated by £4,084,000. This was because net payments made under capital contracts that were used to calculate the outstanding commitment only considered payments made during 2008/09, and not the cumulative total of payments made up to the Balance Sheet date. Note 18 to the financial statements has been amended to correct this. See recommendation 11.

- 30** The Council's general bad debt provision was overstated by £30,000. This was because the bad debt provision was not based on the actual level of debtors at the Balance Sheet date. The council tax bad debt provision was understated by £84,000. The national non-domestic rate (NNDR) bad debt provision was overstated by £5,000. These errors were caused by a failure to follow the Council's stated accounting policy for calculation of the council tax and NNDR bad debt provisions. The financial statements have not been amended in respect of these findings and they are reported as unadjusted misstatements at Appendix 3.
- 31** The Cash Flow Statement submitted for audit did not agree to the Income and Expenditure Account, Balance Sheet or movements in the cash balance for the period. The Cash Flow Statement and supporting notes have been amended to correct for this.

Recommendation	
R1	Where there is clear indication of possible impairment in the value of fixed assets, for example the current economic downturn, ensure that a full impairment review is undertaken annually by a professionally qualified valuer that covers all of the Council's fixed assets.
R2	As part of ongoing work to improve the quality of data on the Council's fixed asset system the categorisation of assets between the HRA and General Fund should be reviewed for accuracy.
R3	Review historic bases for apportionment of salary costs to capital budgets for accuracy as part the wider review of cost allocation planned by the Council.
R4	Have proper regard to the criteria set out in extant financial reporting standards and the Local Government SORP when determining whether expenditure should be capitalised. Specifically consider whether expenditure is directly attributable to bringing assets into working condition to determine whether it should be properly capitalised.
R5	Ensure that amounts written out of the fixed assets balance in the financial statements for disposals are consistent with the carrying value for those assets in the Balance Sheet.
R6	Ensure that the calculation of profit or loss on disposal of fixed assets accords with the methodology set out in the Local Government SORP.
R7	Review and improve the coding structure on the general ledger prior to closedown for the 2009/10 financial statements to minimise the need manually manipulate the trial balance and reduce the risk of classification error. This repeats a similar recommendation in the 2007/08 Annual Governance Report.
R8	Ensure that all capital acquisitions are included within fixed assets on the Balance Sheet and properly financed at the point of acquisition, irrespective of any future intention to sell and lease back the asset.
R9	Seek to strengthen year end cut-off procedures as part of its accounts closedown plan to ensure that income and expenditure is accounted for in the correct period.

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R10 Establish a discrete code within creditors on the general ledger to account for receipts in advance as part of the wider planned review of the general ledger coding structure.

R11 Ensure that the disclosure of capital commitments outstanding is based on the cumulative total of all payments made under ongoing capital contracts at the Balance Sheet date irrespective of the accounting period in which they were made.

Material weaknesses in internal control

- 32** Although I have concluded that the internal financial control environment is adequate overall, our work on the Council's material financial systems has continued to identify some areas where we have found weaknesses in the design or operation of controls.
- 33** As part of our work in 2007/08 we identified weaknesses in the Council's internal financial control environment which were reported to you in the 2007/08 Annual Governance Report. Our 2008/09 work shows that some improvements have been made in the internal financial control environment in response to the issues we raised. However, weaknesses in the design or operation of controls remain in some areas. In other areas improvements were only made part way through 2008/09. We were therefore not able to rely fully on the operation of those controls to gain assurance for the opinion on the financial statements. Where we have not been able to rely on the operation of controls we have worked with Internal Audit to deliver the additional substantive testing within the constraints of the audit fee. Specific weaknesses in internal control, which were originally reported to you in the 2008/09 Supplementary Opinion Audit Plan, are set out in the following paragraphs 34 to 41. Associated recommendations for improvement are contained in the Action Plan at Appendix 6.
- 34** The Council has not fully reconciled the bank balance to the general ledger during the period, however reconciliations of the bank balance to relevant feeder systems have been undertaken on a monthly basis. We also noted an error in the 2008/09 year end bank reconciliation as part of our work. In 2007/08 we reported that a payment run made on 4th April 2008 (2008/09 financial year) had been incorrectly coded to period 13 of the 2007/08 financial year and accounted for within the 2007/08 cash balance on the general ledger. This resulted in a £176,000 under-statement of the cash balance on the general ledger and in the financial statements. Although this was corrected in 2007/08, our review of the year end 2008/09 bank reconciliation highlighted an adjusting item of £176,000 used to reconcile the ledger to the bank balance at the 31st March 2009. Following a review of journals affecting cash and bank processed in the year, we noted that £176,000 had been incorrectly debited to the cash balance in the ledger at the end of 2008/09. The net impact on the financial statements is a £176,000 decrease in the cash in hand balance, and a consequential matching decrease in the creditors balance. The financial statements have been adjusted in respect of this finding.
- 35** As part of its testing of financial controls Internal Audit found that in 3 out of 30 cases tested for staff paid through the payroll system on the basis of timesheets submitted the timesheets had not been correctly authorised.

- 36** There is no segregation of duties between officers initiating and processing journals on the general ledger. Journals are therefore not consistently being authorised before they are processed. We appreciate that it is difficult to establish practical segregation of duties type controls within a small council such as Adur. The sharing of Financial Services with Worthing Borough Council should help to increase capacity and the potential to introduce practically viable segregation of duties type controls. Alternatively the Council may wish to introduce a weekly or monthly management check on sample of higher risk journals. This would provide some controls assurance in this area.
- 37** The Council undertakes a daily reconciliation of the cash receipting system and sales ledger. As part of its testing of financial controls Internal Audit found that 1 out of 20 reconciliations had not been properly authorised.
- 38** Our testing showed that not all Council departments send invoice request forms to the central debtors team before bills are raised for services delivered. We have not therefore been able to verify that all invoices raised have been properly approved. Specifically invoice request forms are not submitted by the building control, trade waste, community alarm and parks departments.
- 39** Batch payments should be properly authorised prior to payment via the creditors system. As part of its testing of financial controls Internal Audit found that 2 out of 13 batch headers tested had not been properly authorised prior to payments being made.
- 40** Budget holder authorisation is required prior to making payments above the amount approved in purchase orders through the creditor payments system. There is currently no systematic method of identifying instances where the value of invoices received for payment is greater than the value of the initiating purchase order.
- 41** Due to the weaknesses in the internal control environment we have needed to undertake a significant amount of substantive testing after the financial statements have been produced, particularly in relation to the Council's Balance Sheet. In order to minimise the cost of the audit to the Council this testing has been undertaken by Internal Audit and we have reviewed and re-performed a sample of that work in order to be able to place reliance on it. The substantive testing undertaken by Internal Audit did not identify any errors.

Recommendation

R12 Improve the format of the current bank reconciliation so that it clearly reconciles the cash balance at the bank to the cash balance appearing on the general ledger. This reconciliation should be performed on a monthly basis, documented and reviewed by an officer separate to the preparer. This repeats a similar recommendation in the 2007/08 Annual Governance Report.

R13 Ensure the staff timesheets used as the basis for payroll payments are properly authorised prior to payments being made.

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R14 Seek to improve the control environment in relation to journals processed on the general ledger by implementing a risk based check of a sample of journals through the period. A methodology for the selection of journals subject to review should be formalised and documented so that the sample size reviewed is supportable. This recommendation is repeated from our 2007/08 Annual Governance Report.

R15 Ensure that all daily reconciliations of the cash receipting system undertaken are appropriately authorised.

R16 Require all Council departments to send invoice request forms to the central debtors team before bills are raised for services delivered.

R17 Ensure that batch payment headers are properly authorised prior to payment via the creditor payments system.

R18 Seek to introduce and document a systematic method of identifying instances where the value of invoices raised is greater than the value of the initiating purchase order to reduce the risk of fraud or error occurring.

Letter of representation

42 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 5 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

43 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>As part of our work in 2007/08 we identified a number of weaknesses in the internal financial control environment within the Council's sundry debtors and creditors systems.</p> <p>We also noted weaknesses in the Council's year end bank reconciliation process and that no procedures had been established in respect of journal authorisation and processing.</p> <p>These issues were reported in the 2007/08 Annual Governance Report.</p>	<p>See the material weaknesses in internal control section of this report at paragraphs 32 to 41 for full details of our findings in this area.</p>

Issue or risk	Finding
<p>Our 2008/09 work to date shows that improvements have been made in the internal financial control environment. However, weaknesses in the design or operation of controls remain in some areas.</p> <p>In other areas improvements in internal control were only made part way through 2008/09. We have therefore been unable to rely on the operation of controls in these areas to gain assurance that covers the whole period.</p>	
<p>5 out of 6 2007/08 Council grant claims submitted for audit required some amendment or qualification. Although none of the issues identified material errors impacting on the financial statements, this did highlight a weakness in the internal control environment in relation to grant claims.</p>	<p>The Council was able to support income from specific grants appearing in the financial statements and related expenditure and balances.</p> <p>As part of our agreement of the year end National Non-Domestic Rate Return to the financial statements we did, however, identify a £34,000 misclassification between income and expenditure on the face of the Collection Fund. The financial statements have been adjusted in respect of this finding.</p>
<p>The Council has implemented a new fixed asset system in 2008/09.</p> <p>There is an audit risk that 2008/09 opening balances will not correctly be brought forward on to the new system. This could result in errors in the closing balances used to prepare the 2008/09 balance sheet, and the calculation of depreciation to be charged to revenue.</p>	<p>Although 2008/09 opening balances were brought forward correctly on to the new fixed asset system we identified a number of capital accounting errors in our audit of the financial statements. These are explained in detail in paragraphs 12 to 20.</p> <p>As part of our work we also noted that council dwellings are not yet included on the new fixed asset system. This contributed to the material mis-statement of HRA disposals reported at paragraph 19. It also means that there is no record of HRA additions outside of the financial statements and prevents the Council from introducing component accounting for fixed assets that will be required to comply with International Financial Reporting Standards. See Recommendation 19.</p>
<p>As part of the audit of the 2007/08 financial</p>	<p>CenSus income and expenditure and</p>

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Issue or risk	Finding
<p>statements we noted that there was a poor audit trail supporting income and expenditure consolidated into the Council's financial statements for its share of the ICT element of the CenSus partnership. In particular we noted some inconsistencies in the way that costs were being split between revenue and capital.</p> <p>This issue was reported to you as part of the 2007/08 Annual Governance Report.</p>	<p>balance sheet entries have been correctly consolidated into the Council's financial statements.</p>
<p>Our 2007/08 audit work showed that the useful lives of some buildings held on the Council's fixed asset register were overstated compared to the useful lives given to those assets as part of the last revaluation exercise by the Council's internal valuer. It is important that asset lives on the asset register are correct as this has an impact on the accuracy of the annual depreciation charge to revenue.</p>	<p>All Council assets have been attributed revised asset lives by a qualified valuer during 2008/09.</p>
<p>The total value of 2008/09 income and expenditure arising from shared working with Worthing Borough Council has increased significantly from the previous period. This has resulted from the joint management structure for the Councils which has been in place for the whole of 2008/09.</p> <p>For financial reporting purposes Adur and Worthing Joint Committee (AWJC) is a joint arrangement that is not an entity. This requires all AWJC income, expenditure, assets liabilities and cash flows to be consolidated into the Council's accounts.</p>	<p>Although the consolidation of AWJC income, expenditure, assets liabilities and cash flows in the Council's main financial statements was largely undertaken correctly we identified that the Council's balance sheet completely excluded AWJC debtors and creditors. A proportion of AWJC debtors and creditors, commensurate with the Council's contribution to the funding of AWJC, should have been included in the Council's main Balance Sheet. The financial statements have been amended in respect of this finding. In the future the Council should ensure that an appropriate proportion of AWJC debtors and creditors are consolidated into its main balance sheet. See recommendation 20.</p>

Accounting practice and financial reporting

- 44** During the course of the audit we detected a number of errors and omissions in the financial statements relating to additions, internal consistency and disclosure. Specifically:

- The variance in actual expenditure from revised budget in the Explanatory Foreword of £652,000 should have been £624,000. The section of the Explanatory Foreword disclosing movements in revenue reserves and balances did not agree to Note 15 to the main statements disclosing movement in revenue reserves and Note 32 to the main statements disclosing movements in provisions. There were other minor discrepancies between disclosure in the Explanatory Foreword and disclosures in the main statements.
- The Balance Sheet initially submitted for audit was out of balance by £2,000.
- Minor wording changes were required to a number of the notes to the primary statements and the Annual Governance Statement.
- The Collection Fund submitted for audit did not add up. The main Collection Fund statement disclosed a surplus for the year of £55,000, but the movement in the Collection Fund balance disclosed showed the correct deficit of £130,000 for the period.
- The analysis of net expenditure of services in the I&E Account initially referred to Cultural, Environmental and Planning Services. Under the Best Value Accounting Code of Practice (BVACOP) 2008 this should now be referred to as Cultural, Environment, Regulatory and Planning Services. The net expenditure of services analysis also initially referred to Highways, Roads and Transport Services. Under BVACOP 2008 this should now be referred to as Highways and Transport Services.
- There were minor disclosure errors in the Statement of Movement on the General Fund Balance relating to the net transfer from HRA reserves and transfer from the HRA balance.
- The Financial Instrument disclosure at Note 29 to the financial statements contained a small number of disclosure errors and omissions.
- A number of other minor disclosures and omissions were noted in the financial statements compared to the standard disclosure requirements set out in the Local Government SORP.

Many of these minor errors, inconsistencies and omissions would have been detected had sufficient time been available to conduct a thorough reasonableness review of the statements prior to approval by committee. The financial statements have been amended to correct for the majority of these issues. We are satisfied that residual unadjusted issues are trivial. See recommendation 21.

- 45** Officers have found it difficult to interrogate the creditor payments and debtors systems to provide appropriate analyses of transactions to support the creditors and debtors balances in the financial statements and facilitate detailed testing. An analysis of creditors was eventually produced that allowed us to undertake detailed testing, but this took officers a significant amount of time to generate. It was eventually possible to reconcile transaction listings from the debtors system to the statements balances, but this was only after manual manipulation which consumed a significant amount of both officer and auditor time. Our detailed testing of the creditors and debtors balances did not identify any errors. In the future the Council should seek to ensure that full listings

Financial statements

of transactions are available to support material balances in the financial statements. See recommendation 22.

Recommendation

R19 Include asset data for council dwellings on the Council's fixed asset system to reduce the risk of error in the financial statements and help facilitate compliance with component accounting requirements for fixed assets.

R20 Ensure that AWJC debtors and creditors are properly consolidated into the Council's main financial statements. This recommendation is repeated from our 2007/08 Annual Governance Report.

R21 Ensure that a full internal quality review of the draft statements is undertaken prior to their approval and submission for audit. This recommendation is repeated from our 2007/08 Annual Governance Report.

R22 Ensure that full listings of transactions are routinely available to support material transaction based balances in the financial statements.

Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude 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

- 46 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.
- 47 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.
- 48 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 6.

Table 2 Use of resources theme scores

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

49 The Council **manages its finances** adequately:

- It has set and approved a balanced and realistic 2008/09 budget that considers the medium term.
- There is no formal medium term financial strategy (MTFS) that covers 2008/09, but there are financial plans covering the medium term which reflect high level Council priorities and have been considered and approved by councillors. Without a formal MTFS it is, however, difficult to make linkages between the Council's financial plans and other key strategies.
- Budget consultation with local people takes place but without significant impact on budget decisions. Some equality impact assessments have been undertaken, but the rate of progress in this area needs to be accelerated.

Use of resources

- There is a corporate focus on improving value for money, particularly through innovative partnership working with Worthing Borough Council. This is key to managing spending within increasingly limited available resources while limiting negative impacts on core services.
- Efficiencies are delivered and there is an understanding of costs, but there remain some higher spending areas. There is generally a good balance between costs and performance, but only limited use of benchmarking to examine comparative costs.
- There is a good track record of managing spending within budget. Budget monitoring and forecasting information is reliable, relevant, and understandable, and monitoring has delivered corrective action. By reporting budget performance alongside performance and risk monitoring, councillors have a fuller picture of the VFM delivered by the Council.
- The 2008/09 financial statements and associated arrangements do not meet minimum standards and there has been some deterioration in this area from the previous period. Detailed findings and recommendations in this area are considered as paragraphs 9 to 45 of this report.

50 The Council **governs its business** adequately:

- It has a broadly effective method of commissioning – though this is undermined by the lack of a clear vision of intended outcomes. There is no clear link between identified needs and commissioning. There is also no current procurement strategy.
- The partnership with Adur is a strength and supports innovative working and a focus on reducing costs and delivering VFM. Reviews of all services are now being undertaken and this process has already identified savings of £314,000 in 2008/09.
- There is an adequate approach to understanding its supply market and considering options for procurement. The Council has a good track record in using different supply arrangements, and uses a variety of collaborative and framework agreements.
- Relevant and reliable information is produced to support decision making and manage performance. The management of data quality is adequate.
- The principles and values of good governance are demonstrated by the Council's constitution and ways of working.
- Partnership agreements are used to promote good governance and shared purpose in its partnerships, including the Adur Worthing Partnership. However, governance arrangements for the CenSus partnership have not been strong, though this is now being addressed.
- Risk management is adequate. There is a clear corporate commitment to managing risk, though there are weaknesses in internal financial controls.

51 The Council **manages its workforce resource** adequately:

- The skills and productivity of staff are managed effectively. Effective people management policies are in place and a single pay structure has been established for joint services.
- Training needs of staff are addressed in annual reviews and there are low levels of sickness absence.
- The corporate approach to workforce planning is progressing positively. Action is being taken to define a corporate workforce development strategy - a draft is in place and actions are being taken to address workforce planning issues.
- There is no evidence of joint working with other local partners to share or develop workforce resources.
- There is a continuing challenge to ensure that the organisation's workforce needs in the medium term are considered strategically and effectively address future challenges and succession planning.
- There has been a good level of engagement with staff on organisational change.
- Progress on developing a corporate approach to equalities and diversity has been slow, though some structures are now in place to encourage development.

Recommendation	
R23	Develop an up to date medium term financial strategy in order to make clear links between the Council's financial plans and other key strategies.
R24	Consider the role and function of budget consultation in the current review of community engagement, and ensure that any future budget consultation is meaningful.
R25	Consider more ways to review and analyse service costs, for instance by benchmarking against other councils.
R26	Make clearer links between commissioning and needs assessment; for example, develop understanding of the inequalities and diversity of local communities and their needs for services over the longer term in order to shape those services over time.
R27	Review and update the Council's procurement strategy.
R28	In developing the workforce development strategy, find ways to: <ul style="list-style-type: none"> • Work jointly with other local partners to share or develop workforce resources. • Strategically consider the organisation's workforce needs in the medium term in order to identify and address future challenges and succession planning.
R29	Accelerate progress in the corporate management of diversity and equalities. Ensure that its principles are applied comprehensively to services. Make more effective use of equality impact assessments in order to ensure that the impact of spending decisions on diverse communities are understood and taken into account.

Value for money conclusion

- 52** I assess 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 6.
- 53** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Independence

- 54** The Code of Audit Practice and the Audit Practices Board's (APB) Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 55** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.

Our arrangements to ensure independence and objectivity

- 56** We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 3.

Table 3 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and

Independence

Area	Arrangements
	<ul style="list-style-type: none"><li data-bbox="480 306 799 342">• gifts and hospitality.
Code of Conduct	The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.
Confidentiality	All staff are required to sign an annual undertaking of confidentiality as a condition of employment.

Appendix 1 – Independent auditor’s report to Members of Adur District Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Adur District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Adur District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls.

Appendix 1 – Independent auditor’s report to Members of Adur District Council

Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of its accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and to regularly review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Adur District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Helen Thompson, District Auditor, Audit Commission, Suite 2, Ground Floor,
Bicentennial Building, Southern Gate, Chichester, West Sussex, PO19 8EZ

28 September 2009.

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 4

Item of account	Description of error
Impairment of fixed assets	<p>No impairment of Council fixed assets had been made to account for the impact of the economic downturn as at 31 March 2009. This resulted in over-statement of the value of Fixed Assets in the Balance Sheet, over-statement of the Revaluation Reserve in the Balance Sheet and under-statement of the impairment charge to the Housing Revenue Account (HRA) and Income and Expenditure Account (I&E).</p> <p>Impact on Balance Sheet: Decrease in the value of Fixed Assets of £38.1 million. Decrease in the value of the Revaluation Reserve of £17.9 million.</p> <p>Impact on HRA: Increase in the Net of Services of £15.6 million</p> <p>Impact on I&E: Increase in the Net Cost of Services of £4.7 million.</p> <p>Note that the additional charge to the HRA and I&E accounts is reversed to the Capital Adjustment Account via the Statement of Movement in the General Fund Balance and therefore has no impact on the Council's balances and reserves. Note also that the impairment had been incorrectly reversed to the Revaluation Reserve, rather than the Capital Adjustment Account in the financial statement submitted for audit.</p>
Capitalised salaries.	<p>£493,000 of officer salaries have been capitalised during the period. It is not clear whether some of all of these costs should have been capitalised having regard to</p>

Appendix 2 – Adjusted amendments to the accounts

Item of account	Description of error
	<p>extant financial reporting standards and requirements. The statements have been amended to reflect that the capitalised expenditure has not added to the value of fixed assets in the Balance Sheet.</p> <p>Impact on Balance Sheet: Decrease in the value of Fixed Assets of £493,000.</p> <p>Impact on I&E: Increase in Net Cost of Services of £493,000.</p> <p>Note that the additional charge to the I&E Account is reversed to the Capital Adjustment Account via the Statement of Movement in the General Fund Balance and therefore has no impact on the Council's balances and reserves.</p>
<p>Profit or loss on disposal of fixed assets.</p>	<p>HRA disposals were not written out of the financial statements at the correct book value.</p> <p>The profit or loss on disposal of HRA assets originally disclosed in the financial statements simply reflected the part of the capital receipt arising from the disposal that was retained by the Council under regulations requiring a proportion of HRA capital receipts to be passed over to central government.</p> <p>The whole of the capital receipt relating to the disposal of the Golden Sands caravan site was accounted for as relating to the General Fund. The part of this capital receipt relating to the caravans should have been accounted for as relating to the HRA.</p> <p>Impact on Balance Sheet: HRA fixed asset disposals decreased by £1.2 million.</p> <p>Impact on HRA: HRA profit on disposal of fixed assets increased by £70,000.</p> <p>Impact on I&E: I&E account loss on disposal of fixed assets of £797,000 amended to profit on disposal of £422,000.</p> <p>Note that the profit on disposal of fixed assets disclosed in the I&E Account and HRA is reversed to the Capital Adjustment Account via the Statement of Movement in the General Fund Balance and therefore has no impact on the Council's balances and reserves.</p>
<p>Contribution of housing</p>	<p>Regulations require that seventy-five per cent of the capital receipt relating to Golden Sands caravans sold in</p>

Appendix 2 – Adjusted amendments to the accounts

Item of account	Description of error
capital receipts to the government pool.	<p>the year is transferred to central government.</p> <p>Impact on Balance Sheet: Creditors increased by £97,000. Usable capital receipts decreased by £97,000.</p> <p>Impact on I&E: Increase in Net Operating Expenditure of £97,000.</p>
Consolidation of Adur and Worthing Joint Committee Balance Sheet into the Council's main accounts.	<p>Although the consolidation of AWJC income, expenditure, assets liabilities and cash flows in the Council's main financial statements was largely undertaken correctly we identified that the Council's balance sheet completely excluded AWJC debtors and creditors. A proportion of AWJC debtors and creditors, commensurate with the Council's contribution to the funding of AWJC, should have been included in the Council's main Balance Sheet.</p> <p>Impact on Balance Sheet: Creditors increased by £xx. Debtors increased by £xx. Imputed cash has changed by the difference in the increase in debtors and creditors of £xx.</p>
Failure to correctly account for receipts in advance.	<p>Our testing of debtors appearing in the Balance Sheet identified approximately £340,000 of receipts in advance that had been erroneously netted off debtors on the general ledger and in the financial statements.</p> <p>Impact on Balance Sheet: Debtors increased by £340,000. Creditors increased by £340,000.</p>
Bank reconciliation and cash balance.	<p>A £176,000 adjustment to the cash balance made to correct an error detected as part of our 2007/08 audit of the financial statements was made in error for a second time in 2008/09.</p> <p>Impact on Balance Sheet: Cash decreased by £176,000. Creditors decreased by £176,000.</p>
Revaluation of Golden Sands.	<p>Golden Sands had not transferred to non-operational assets and re-valued to a market valuation when it ceased to be used to provide temporary accommodation</p>

Appendix 2 – Adjusted amendments to the accounts

Item of account	Description of error
	<p>for the homeless.</p> <p>Impact on Balance Sheet: Decrease in the value of Fixed Assets of £58,000. Decrease in the value of the Revaluation Reserve of £58,000.</p>
Cash Flow Statement.	<p>The Cash Flow Statement submitted for audit did not agree to the Income and Expenditure Account, Balance Sheet or movements in the cash balance for the period.</p>
Collection Fund	<p>As part of our agreement of the year end National Non-Domestic Rate Return to the financial statements we identified a £34,000 misclassification between income and expenditure on the face of the Collection Fund.</p> <p>Impact on Collection Fund: Income increased by £34,000. Expenditure increased by £34,000. No overall net impact.</p>

Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 5

Description of error	Accounts effected
The Council's general bad debt provision was overstated by £30,000.	Expenditure in the Income and Expenditure Account and deficit for the period is overstated by £30,000. The level of Council balances and reserves is understated by £30,000.
The council tax bad debt provision was understated by £84,000. The national non-domestic rate bad debt provision is overstated by £5,000.	Collection Fund expenditure is understated by £84,000. The Collection Fund balance is overstated by £84,000. Collection Fund income and expenditure is understated by £5,000.
The annual depreciation charge for land and buildings was £19,000 greater on the Council's fixed asset register than in the financial statements.	Fixed assets are overstated in the Balance Sheet by £19,000. The depreciation charge to the Income and Expenditure Account was understated by £19,000.

Appendix 4 – Non-trivial uncertainties in the accounts.

Table 6 Non-trivial uncertainties in the financial statements

Item of account	Description of uncertainty
<ul style="list-style-type: none"> • Capital Expenditure. • Expenditure in the Income and Expenditure Account and the deficit for the period. • Balances and Reserves. 	<p>£493,000 of officer salaries have been capitalised during the period. It is not clear whether some of all of these costs should have been capitalised having regard to extant financial reporting standards and requirements.</p> <p>Capital expenditure is therefore potentially overstated by a maximum of £493,000. The level of Council balances and reserves is potentially overstated by a maximum of £493,000.</p>
<ul style="list-style-type: none"> • Income and Expenditure Account. • Balance Sheet creditors. 	<p>Our testing of 18 cash payments from March, April and May 2009 identified two cases where expenditure was not accounted for in the correct financial year. The errors have been extrapolated to quantify the likely error in 2008/09 expenditure reported in the Income and Expenditure Account and creditors in the Balance Sheet.</p> <p>The gross value of the extrapolated errors is £133,000, the net value of the errors is £79,000. Expenditure in the Income and Expenditure Account is therefore likely to be understated by £79,000, the level of creditors in the Balance is likely to be understated by £79,000.</p>

Appendix 5 – Draft letter of representation

Helen Thompson
Appointed Auditor
Audit Commission
Suite 2, Ground Floor
Bicentennial Building
Southern Gate
Chichester
West Sussex, PO19 8EZ

Adur District Council - Audit for the year ended 31st March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers, of Adur District Council the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31st March 2009. All representations cover the Authority's accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Authority and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Authority and the reason for not correcting these items is as follows;

Due to the level of errors identified, the Council has focussed its efforts on correcting the most significant errors to ensure that the accounts are unqualified. Consequently, there are a some mistatements which the Council has opted not to correct for due to time pressures.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Authority meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority.

The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Appendix 5 – Draft letter of representation

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For Financial Instruments fair value assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require/do not require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Authority, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Adur District Council

I confirm that the this letter has been discussed and agreed by the Constitution and Audit Committee on 28th September 2009

Signed on behalf of Adur District Council:

Name:

Sarah Gobey

Executive Head of Financial Services

Date

PLEASE DATE SAME AS OPINION DATE

Name:

Councillor Rod Hotton

Chair of Constitution and Audit Committee

Date

28th September 2009

Appendix 6 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes.

Table 7 Managing finances

THEME SCORE: 2	
KLOE 1.1 (financial planning)	
Score	2
VFM criterion met	Yes
KLOE 1.1 Findings and Conclusions	
<p>The Council has set and approved a comprehensive, balanced and realistic 2008/09 budget, supported by achievable savings plans. Assumptions underpinning the budget and any savings included are reasonable and the Council has a good track record of maintaining its spending within budgetary constraints.</p> <p>There is no extant Medium Term Financial Strategy (MTFS) covering 2008/09. However, the budget strategy presented to members and approved in July 07 performs many of the functions of an MTFS and considers known cost pressures and council tax levels over a 3 year period (2008/09 to 2010/11). It also produces a budget which is in line with revised Council priorities resulting from joint working with Worthing BC, and as such constitutes an interim update to the 2005-2008 MTFS. A new MTFS has now been approved which applies from 2010/11 onwards. Without a full, extant MTFS covering 2008/09 it is not fully possible to see at a detailed level how the financial implications of other strategies and plans for example, human resources, information technology, service charges, capital investment and asset management, have been taken into account in medium term revenue projections. There are, however, medium term financial plans that cover the period which reflect the Council's priorities at a high level and consider the partnership working agenda with Worthing which is the main area of change to improve efficiency.</p>	

Appendix 6 – Use of resources key findings and conclusions

Only very limited evidence has been provided which demonstrates that the Council has assessed the impact of its key policies and strategies on its diverse communities in compliance with the requirements of equalities legislation. The Council is therefore not able to demonstrate how it has considered equalities impacts in its decision making, particularly in significant financial decisions taken.

The Council engages with stakeholders through the annual 'State of the District' debate. However, it is not clear how the views expressed in these forums feed budget-setting or other financial decision-making processes. The Council makes other efforts to engage with stakeholders as part of the financial planning process. Letters were sent to representatives of local businesses to consult on the 2009/10 budget before approval by Full Council. However, to demonstrate better performance in this area the Council needs to ensure that it is engaging with a wider range of relevant stakeholders, using a variety of media, rather than focusing exclusively on one local group.

A robust prioritisation process appears to be in place to ensure that capital acquisitions provide good value for money and support the delivery of Council objectives. The Council is able to point to a number of specific capital schemes which demonstrate that prioritisation is operating effectively and is resulting in a clear link between capital spending and the Council's priorities. Linking financial planning with strategic service planning helps to ensure that the Council achieves good value for money in its use of resources.

KLOE 1.2 (understanding costs and achieving efficiencies)

Score

3

VFM criterion met

Yes

KLOE 1.2 Findings and Conclusions

The Council has a clear corporate focus on the improvement of the value for money it currently delivers. Innovative partnership working with Worthing BC, under Adur and Worthing Joint Committee, will help to ensure that recurrent savings and efficiencies are secured going forward. This is a key step in enabling both Councils to manage spending within increasingly limited available resources without having a detrimental impact on core services. The Council has a good track record of achieving its efficiency targets, which is confirmed by performance under National Indicator 179 for the period. The implementation of a joint management structure for Adur and Worthing Councils in 08/09 has also secured significant recurrent savings for both bodies. Partnership working with Worthing, with the primary focus of improving value for money, is innovative practice and differentiates the Council from others. The Council has demonstrated an understanding of costs over time and an ability to manage some of them efficiently, though there remain some higher spending areas. There is a good balance between costs and performance in many service areas, although the Council

Appendix 6 – Use of resources key findings and conclusions

has yet to fully address some long standing areas of higher cost such as environment and housing. A robust prioritisation process is in place to ensure that capital acquisitions provide good value for money and support the delivery of Council objectives. The Council is able to highlight a number of specific capital schemes which demonstrate that prioritisation is operating effectively and is resulting in a clear link between capital spending and the Council's priorities.

The Council is also able to point to discrete examples of efficiencies leading to the delivery of service improvements that the public would recognise. A joint refuse collection and recycling service has been established in partnership with Worthing Borough Council. As part of this 100,000 new wheeled bins have been provided to the public through efficiency savings brought about by the rationalisation of vehicles and crews.

High level business cases have been prepared for all services as part of joint working with Worthing. Business cases have identified further savings, but not all are yet considered to be sufficiently robust to be built into financial projections. A further programme of service reviews is planned. This will look at other ways of delivering joint services, using business process re-engineering techniques to change processes and structures.

There is currently only limited use of benchmarking to examine comparative costs, including transaction and unit costs. The Council has, however, used Audit Commission value for money profile data to show cost comparisons at Corporate Management Team. Most of the cost analysis currently undertaken by the Council is focused on the partnership working with Worthing.

KLOE 1.3 (financial reporting)

Score

2

VFM criterion met

Yes

KLOE 1.3 Findings and Conclusions

The Council has a good track record of managing spending within budget. There has been drive to improve budget monitoring information so that it is properly focused on areas of over and under spending. Budget monitoring and forecasting information is now reliable, relevant, and understandable. It is produced on a quarterly basis, with monitoring reports being considered by the Partnership Management Board, Overview and Scrutiny Committee and Cabinet since April 2008. The Council identifies variations in financial performance and forecast financial outturn for the year as soon as possible. Good quality explanations of the reasons for over and under-spending are produced as part of this process. This allows management to either take corrective action to manage unfavourable variances, or apply any favourable variances to corporate priorities. All of this ensures that no unexpected significant over and underspends are reported in the year end outturn report.

The Council prepares relevant and timely finance reports for Cabinet which enable it to make informed strategic

decisions. The production of good quality financial forecasting allows members to make informed decisions when approving the annual budget strategy.

The most significant partnership the Council is involved in is joint working with Worthing BC under Adur Worthing Joint Committee. As in 2007/08, the financial performance of the shared refuse collection and recycling service has been monitored on a bespoke basis throughout 2008/09 and reported to the Joint Strategic Committee.

The Council reports revenue and capital budget monitors, performance monitoring and risk monitoring reports to members contemporaneously for both main Council activity and partnership work with Worthing Borough. This allows linkages to be made between financial and service performance and risks, and allows members and senior management to monitor a more complete picture of the value for money being delivered by the Council.

External reporting is genuinely accessible and takes account of the needs of users. The Council's website contains translation software that enables reports to be accessed in a variety of languages. There is also a function to download software which makes the contents of the website audible when text is rolled over with a user's mouse. Adur's website has won a number of external awards.

The Council's 2008/09 financial statements were approved on the 29th June 2009 by the Constitution and Audit Committee. However, the accounts presented for audit contained a significant number of errors, including some errors with a material impact, across all of the primary statements. The statements were also not subject to a robust quality review prior to approval by committee. This was due to slippage against the timetable to close down the ledger and produce the statements. The draft accounts produced were not at minimum standards and this represents a deterioration in performance from the previous period. Working papers to support the audit of the financial statements are adequate overall.

Historically the Council's accounts are published by 30 September (including the audit opinion) and made available on the Council's website. However, in 2007/08, the version of the financial statements initially published did not reflect adjustments made as part of the audit and contained a significant number of omissions, errors and inconsistencies.

Appendix 6 – Use of resources key findings and conclusions

Table 8 Governing the business

THEME SCORE: 2	
KLOE 2.1 (commissioning and procurement)	
Score	2
VFM criterion met	Yes
<p>KLOE 2.1 Findings and Conclusions</p> <p>The Council commissions and procures services and supplies effectively to deliver sustainable outcomes and value for money.</p> <p>Commissioning and procurement is not driven by a clear vision of intended outcomes. The Council's three year corporate plan expired in 2008, though interim priorities and national indicators were monitored via the performance and risk matters quarterly report. No up to date service plans were in use. The Council's procurement strategy sets some broad principles but is out of date and provides no objectives or action plan for improvement. The Adur Worthing Partnership (AWP) governance agreement gives clarity to the joint commissioning by emphasising a number of broad shared priorities. This is positive, since the AWP is the most significant priority in commissioning. It does not, however, emphasise the local needs it aims to address. An understanding of needs does not drive commissioning.</p> <p>Stakeholders are adequately involved in commissioning. The Council has involved partners and local people in commissioning services. The AWP ensures a strong partnership engagement, particularly in focusing on reducing costs and improving services. The high level business cases for service reviews assess impact on users. In addition, service users have been consulted on specific service provision arrangements such as on methods of recycling and frequency of collection.</p> <p>The Council has an adequate track record of using ICT to improve value for money (VFM) and service access. The website is adequate and enables online payments and other services. The Council has invested in staff to support the consideration of e-business in service reviews and has committed to a future strategy for service delivery emphasising modernisation of services, improved access and greater technology. There is much action in review though few clear examples as yet of projects implemented which benefit local people.</p>	

Appendix 6 – Use of resources key findings and conclusions

The Council has some understanding of the supply which it uses in its procurement activity. It builds its understanding by information sharing through Sussex procurement fora. There is some good engagement with small and medium sized enterprises and packaging of contracts has encouraged their bids, for instance in letting separate contracts for public conveniences and building cleaning. The Council does not report on the success of its procurement activity, and so the impact of supplier knowledge in achieving VFM in procurement and commissioning is not clear.

The Council adequately considers different options for procuring services and supplies. The innovations in the AWP mean that the Council is routinely innovative in its consideration of supply arrangements and the establishment of joint working. However, the high level business cases focus on joining services together but do not assess the range of supply options available – this is likely to follow from service reviews. The Council uses a variety of framework contracts for areas such as energy, stationery, vehicles and wheelie bins and has a good track record in using different supply arrangements. The range of options considered will enable greater VFM to be achieved.

The Council reviews services effectively. It has a clear programme to review all services in the AWP. High level business cases have been completed for all services setting out how services can be brought together and achieve savings and efficiency targets of ten percent over three years. This process has already identified savings quantified as £314,000 in 2008/09. The service review process has a strong focus on transformation, service re-design and VFM, and the Council has invested in corporate capacity to support this. In addition, the Council is considering some strategic issues in relation to information communication technology provision, accommodation, telephony and electronic document and record management systems which will have implications for VFM and access to services. All these things are evidence of strong work in progress which is delivering savings and prospects for better future outcomes.

KLOE 2.2 (data quality and use of information)	
Score	2
VFM criterion met	Yes

KLOE 2.2 Findings and Conclusions

The Council effectively produces relevant and reliable data to support decision making and manage performance.

The Council manages data quality adequately. A performance management framework is in place and responsibilities for ensuring data quality are clearly defined. This is supported by the use of Covalent, a system which allows data to be consistently specified and easily and effectively shared. System users have recently been trained in data quality issues. Data quality is enhanced by specific procedures and a programme of reviews by Internal Audit. A data quality assurance

Appendix 6 – Use of resources key findings and conclusions

checklist is used by senior managers to sign off data and the importance of data quality is clearly emphasised to councillors and officers. We have also carried out spot checks of performance indicators and based on these, we conclude that systems for production are adequate and indicators are based on reliable data and calculated in accordance with specified definitions.

The Council uses information effectively to support decision making. Senior management routinely and actively use data supporting performance information to plan and allocate resources. Members have access to data on Covalent and through the performance reporting framework. The Council takes a proactive approach to the reporting of key performance issues on a monthly basis – a brief performance update is prepared for the Partnership Management Board each month. The use of Covalent ensures ownership and accountability for the quality of data and performance achievement. Performance monitoring is enhanced by the inclusion of risk measures. Monitoring information has been weakened in 2008/09 by the absence of clearly set out corporate plans and priorities. Interim reporting measures of achievement have been wide ranging and often project based, though national performance indicators have continued to be monitored and reported on. These weaknesses have now been addressed in 2009/10.

Security arrangements for the Council’s performance information system are robust. A business continuity plan is in place and has been tested. The Council works with partners to ensure that shared data is of appropriate specification and quality. A West Sussex County Council performance group has been established to look at shared data, such as National Indications, Local Area Agreement (LAA) targets and data quality issues. An internal Local Area Agreement Working Group has been established, meeting every 4-6 weeks to run through progress with LAA targets and data. However, the Council does not have standards or protocols for shared data or data supplied by third parties, and the Council has not been able to demonstrate that it monitors standards for the quality of data it shares or relies on internally or externally.

KLOE 2.3 (good governance)

Score

2

VFM criterion met

Yes

KLOE 2.3 Findings and Conclusions

The Council demonstrates the principles and values of good governance.

The principles and values of good governance are applied appropriately in constitutional arrangements. Part 3 of the Council's Constitution details the responsibility for functions and also contains the scheme of delegation to officers. The joint scheme of delegation with Worthing BC is detailed together with the local arrangements. A combination of these

Appendix 6 – Use of resources key findings and conclusions

clearly describe the individual roles and responsibilities of the leader and executive members, other Council members, the scrutiny function, and the chief executive and senior officers. The constitution is updated on a regular basis to reflect significant changes such as the partnership working with Worthing Borough Council, changes to legislation, or changes to the structure of the organisation.

The Council adequately expresses a purpose and vision which drive the business. The Council's three year corporate plan expired in 2008, though interim priorities and national indicators were monitored via the performance and risk matters quarterly report. In addition, the Adur Worthing Partnership (AWP) arrangements set out a clear statement of purpose and a focus on efficiency and value for money.

The Council has an established ethical framework. It has codes of conduct for its members and staff with all members signing up to the code of conduct on election to the Council.

The Council uses partnership agreements to promote good governance and shared purpose in its partnerships. There are several examples of this. The AWP agreement has a statement of purpose supported by detailed arrangements for working in partnership, including formal joint committee arrangements. These arrangements make productive working more likely. The CenSus ICT and revenues and benefits partnership is currently governed by a management board and joint member steering group. This was reasonable and proportionate at inception of the Partnership given the relatively small amount of public money within the Partnership's remit. There has, however, been significant growth in the value of public funds controlled by the partnership during 2008/09 and 2009/10 and the existing governance arrangements are no longer appropriate. Plans are now being developed to improve CenSus governance and enhance transparency in the way decisions are taken and demonstrate greater public accountability.

KLOE 2.4 (risk management and internal control)	
Score	2
VFM criterion met	Yes

KLOE 2.4 Findings and Conclusions

The Council has up to date standing orders, standing financial instructions and a scheme of delegation which take account of the joint working with Worthing Borough Council.

The Council regularly reviews and updates a register of its corporate and service business risks which links risks to strategic objectives and assesses identified risks for likelihood and impact. Responsibility is assigned to named individuals to lead on actions to mitigate identified risks. Risks are also actively monitored through the Council's use of the on-line

Appendix 6 – Use of resources key findings and conclusions

Covalent system, which details both the Council's strategic risks, service level risks and risks associated with the Council's partnership working.

Strategic risk management refresh workshops are run and attended by both members and senior officers. This demonstrates a corporate focus on risk management, and helps to ensure regular review and effective management of current and future risks. Through quarterly Performance and Risk Matters reports to the Joint Overview and Scrutiny Committee and Joint Strategic Committee the Council routinely reviews and updates a joint risk register which specifically details the risk in relation to the Council's partnership working.

As part of 2007/08 work we identified weaknesses in the design and operation of internal financial controls that had the potential to result in a material error in the financial statements. In 2008/09 continued weaknesses in the control environment mean it remains necessary to undertake detailed substantive testing to support the financial statements audit. Work has, however, been undertaken by Council officers to improve the control environment in a number of key systems, but there remain weaknesses in the Council's arrangements to close the financial ledger and produce the statements of account. Rushed closedown also limits the amount of time available to conduct a robust overall reasonableness review of the statements produced.

The Council has an established Audit Committee that considers internal audit reports, the Annual Governance Statement (AGS), the annual IA review of effectiveness in support of the AGS and all Audit Commission reports. The level of challenge offered by the audit committee is reasonable, but there remains clear scope for further development of this aspect of its function.

The Council's internal audit service is provided externally by Deloitte. We have assessed the service as operating effectively and in accordance with the requirements of relevant standards. This supports the Council in maintaining a sound system of internal control and provides detailed evidence to inform the Annual Governance Statement. We have, however, noted some delays in the reporting of internal audit work in 2008/09 meaning that it has not always been possible for the audit committee to follow-up reported issues in a timely manner.

Table 9 Managing resources

THEME SCORE: 2	
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<p>KLOE 3.3 (workforce planning)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>KLOE 3.3 Findings and Conclusions</p> <p>The Council manages its workforce adequately to support the achievement of strategic priorities.</p> <p>The Council is managing the skills and productivity of its staff effectively. It has effective people management policies in place and is updating them to reflect its partnership approach. It has scheduled a thorough programme of reviews of HR policies to ensure harmonisation between the organisations. During 2008/09, a pay review was completed and implemented so that there is now a single pay structure for joint services. There is a range of policies which support flexible working and staff development, and the Council has recently completed a healthy workforce survey to inform future actions on staff welfare. Sickness absence has been high but the Council is successfully acting to reduce it: in 2008/09, sickness absence averaged 11.89 days per employee, compared with 15.03 in the previous year. The skills and training needs of individual staff are assessed in annual performance reviews. These are considered corporately to identify common training needs. It is less clear how service planning considers these issues though the current round of service reviews will offer a developing analysis in the future. Nor is it clear what plans are in place to address skills gaps.</p> <p>The Council's approach to workforce planning is progressing positively. Its work in the AWP has enabled an effective focus on joint management resources from April 2008. High level business cases have successfully identified the way in which services will be brought together, and therefore address the short term workforce implications of joint working. In the coming year, service reviews will examine in detail the workforce needs of reviewed services. There is a specific service review to consider the procurement of agency staff. Action is being taken to define a corporate workforce development strategy: a draft is in place and actions are being taken to address workforce planning issues. In addition, the Partnership Support Group plays a role in supporting and challenging managers on the service reviews, including workforce implications. There is no evidence that there is joint working with other local partners to share or develop workforce resources. There is a continuing challenge to ensure that the organisation's workforce needs in the medium term are considered strategically and effectively address future challenges and succession planning.</p> <p>The Council has been proactive in engaging staff and communicates effectively with its staff on organisational change. Change champions have been identified in each service block in order to liaise with the business transformation (BT) team to help support the programme of service reviews, transformation in their service and share experiences with other change champions and the BT team. The Joint Officers Negotiating Group has been actively involved in the change process, particularly on the single pay issue. The Council also uses Team talk for communicating with staff, managers' briefings, joint</p>	

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staff committee, online Q&A to Partnership Management Board (PMB) and feedback from PMB. The chief executive and executive directors have presented to staff on the change programme.

The Council has been slow to develop its approach to equalities and diversity, though there are structures now in place to encourage development. An Adur Worthing equalities and diversity action plan has been agreed containing 10 actions. Each service block has now completed an equalities and diversity action plan and equality impact assessments are to follow.

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 – Recommendations						
12	R1. Where there is clear indication of possible impairment in the value of fixed assets, for example the current economic downturn, ensure that a full impairment review is undertaken annually by a professionally qualified valuer that covers all of the Council's fixed assets.	3	Sarah Gobey, Executive Head of Financial Services Wendy Baker, Capital Accountant Steve Coe, Estates Manager	Yes		31/3/2010
12	R2. As part of ongoing work to improve the quality of data on the Council's fixed asset system the categorisation of assets between the HRA and General Fund should be reviewed for accuracy.	2	Sarah Gobey, Executive Head of Financial Services Wendy Baker, Capital Accountant	Yes		31/3/2010

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R3. Review historic bases for apportionment of salary costs to capital budgets for accuracy as part the wider review of cost allocation planned by the Council.	2	Sarah Gobey, Executive Head of Financial Services Jo-Anne Chang- Rogers Finance Manager	Yes	The Councils are currently reviewing cost allocations as part of a larger project bringing together business practices.	31/3/2010
12	R4. Have proper regard to the criteria set out in extant financial reporting standards and the Local Government SORP when determining whether expenditure should be capitalised. Specifically consider whether expenditure is directly attributable to bringing assets into working condition to determine whether it should be properly capitalised.	3	Sarah Gobey, Executive Head of Financial Services Jo-Anne Chang- Rogers Finance Manager Wendy Baker, Capital Accountant	Yes		31/3/2010
12	R5. Ensure that amounts written out of the fixed assets balance in the financial statements for disposals are consistent with the carrying value for those assets in the Balance Sheet.	3	Wendy Baker, Capital Accountant	Yes		31/3/2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R6. Ensure that the calculation of profit or loss on disposal of fixed assets accords with the methodology set out in the Local Government SORP	2	Wendy Baker, Capital Accountant	Yes		31/3/2010
12	R7. Review and improve the coding structure on the general ledger prior to closedown for the 2009/10 financial statements to minimise the need manually manipulate the trial balance and reduce the risk of classification error. This repeats a similar recommendation in the 2007/08 Annual Governance Report.	3	Sarah Gobey, Executive Head of Financial Services Jo-Anne Chang- Rogers Finance Manager Julie Gamlin Group Accountant	Yes	A suitable coding structure will be developed as part of the reimplementation of Total.	31/3/2010
12	R8. Ensure that all capital acquisitions are included within fixed assets on the Balance Sheet and properly financed at the point of acquisition, irrespective of any future intention to sell and lease back the asset.	3	Wendy Baker, Capital Accountant	Yes		31/3/2010
12	R9. Seek to strengthen year end cut-off procedures as part of its accounts closedown plan to ensure that income and expenditure is accounted for in the correct period.	2	Jo-Anne Chang- Rogers Finance Manager	Yes		31/3/2010

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R10. Establish a discrete code within creditors on the general ledger to account for receipts in advance as part of the wider planned review of the general ledger coding structure.	3	Sarah Gobey, Executive Head of Financial Services Jo-Anne Chang-Rogers Finance Manager Julie Gamlin Group Accountant	Yes	A suitable coding structure will be developed as part of the reimplementation of Total.	31/3/2010
13	R11. Ensure that the disclosure of capital commitments outstanding is based on the cumulative total of all payments made under ongoing capital contracts at the Balance Sheet date irrespective of the accounting period in which they were made	2	Wendy Baker, Capital Accountant	Yes		31/3/2010
14	R12. Improve the format of the current bank reconciliation so that it clearly reconciles the cash balance at the bank to the cash balance appearing on the general ledger. This reconciliation should be performed on a monthly basis, documented and reviewed by an officer separate to the preparer. This repeats a similar recommendation in the 2007/08 Annual Governance Report.	3	Jo-Anne Chang-Rogers, Finance Manager Tony Jackson, Group Accountant	Yes		30/11/2009

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
14	R13. Ensure the staff timesheets used as the basis for payroll payments are properly authorised prior to payments being made.	3	Sarah Gobey Executive Head of Financial Services Gill Townsend Payroll Manager	Yes		30/9/2009
14	R14. Seek to improve the control environment in relation to journals processed on the general ledger by implementing a risk based check of a sample of journals through the period. A methodology for the selection of journals subject to review should be formalised and documented so that the sample size reviewed is supportable. This recommendation is repeated from our 2007/08 Annual Governance Report.	2	Sarah Gobey, Executive Head of Financial Services Christine Ryder, Finance Manager Julie Gamlin, Group Accountant	Yes	A suitable solution will be developed as part of the reimplementation of Total.	30/9/2009
14	R15. Ensure that all daily reconciliations of the cash receipting system undertaken are appropriately authorised.	2	Linda May, Chief Cashier	Yes		30/9/2009
15	R16. Require all Council departments to send invoice request forms to the central debtors team before bills are raised for services delivered.	2	Steve Montgomery	Yes		30/9/2009

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
15	R17. Ensure that batch payment headers are properly authorised prior to payment via the creditor payments system.	3	Yvonne Stillwell Senior Payments Officer	Yes		31/3/2010
15	R18. Seek to introduce and document a systematic method of identifying instances where the value of invoices raised is greater than the value of the initiating purchase order to reduce the risk of fraud or error occurring.	3	Julie Gamlin, Finance Manager Yvonne Stillwell, Senior Payments Officer	Yes	A suitable solution will be developed as part of the reimplementation of Total.	31/3/2010
18	R19. Include asset data for council dwellings on the Council's fixed asset system to reduce the risk of error in the financial statements and help facilitate compliance with component accounting requirements for fixed assets.	2	Jo-Anne Chang-Rogers, Finance Manager Wendy Baker, Capital Accountant	Yes	The feasibility of this will be looked into during the remainder of 2009/10 with the intention of implementing for 2010/2011	31/3/2011
19	R20. Ensure that AWJC debtors and creditors are properly consolidated into the Council's main financial statements. This recommendation is repeated from our 2007/08 Annual Governance Report.	2	Christine Ryder, Finance Manager Janice Roberts, Group Accountant	Yes		31/3/2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
			Julie Gamlin, Group Accountant			
19	R21. Ensure that a full internal quality review of the draft statements is undertaken prior to their approval and submission for audit. This recommendation is repeated from our 2007/08 Annual Governance Report.	3	Sarah Gobey, Executive Head of Financial Services Christine Ryder, Finance Manager	Yes		31/3/2010
19	R22. Ensure that full listings of transactions are routinely available to support material transaction based balances in the financial statements.	2	Christine Ryder, Finance Manager Janice Roberts, Group Accountant	Yes		31/3/2010
22	R23. Develop an up to date medium term financial strategy in order to make clear links between the Council's financial plans and other key strategies.	3	Sarah Gobey, Executive Head of Financial Services Tony Jackson, Group Accountant	Yes	An revised MTFP was agreed in June 2009 and will be updated on an annual basis	Ongoing

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
22	R24. Consider the role and function of budget consultation in the current review of community engagement, and ensure that any future budget consultation is meaningful.	2	John Mitchell, Executive Head of Corporate Strategy Sarah Gobey, Executive Head of Financial Services	Yes	A participatory budgeting exercise has been agreed for 2009/10 to better consult with how the Council spends its resources	Ongoing
22	R25. Consider more ways to review and analyse service costs, for instance by benchmarking against other councils.	2	Strategic Directors	Yes	Will be considered further over the next two years as part of the Better Together Project.	Over the next two years
22	R26. Make clearer links between commissioning and needs assessment; for example, develop understanding of the inequalities and diversity of its local communities and their needs for services over the longer term in order to shape those services over time.	3	John Mitchell, Executive Head of Corporate Strategy	Yes	Timescale to be confirmed.	

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
22	R27. Review and update the Council's procurement strategy.	3	Cliff Harrison, Executive Head of Technical Services	Yes		31/3/2010
22	R28. In developing the workforce development strategy, find ways to: <ul style="list-style-type: none"> • Work jointly with other local partners to share or develop workforce resources. • Strategically consider the organisation's workforce needs in the medium term in order to identify and address future challenges and succession planning. 	3	John Mitchell, Executive Head of Corporate Strategy	Yes	Timescale to be confirmed.	
22	R29. Accelerate progress in the corporate management of diversity and equalities. Ensure that its principles are applied comprehensively to services. Make more effective use of equality impact assessments in order to ensure that the impact of spending decisions on diverse communities are understood and taken into account.	3	John Mitchell, Executive Head of Corporate Strategy	Yes	Timescale to be confirmed.	

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The Audit Commission

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For further information on the work of the Commission please contact:

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

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
