

Annual Governance Report

Harborough District Council

Audit 2008/09

Date **9 September 2009**

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Ladies and Gentlemen

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 Deputy Chief Executive on 8 September 2009.

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

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- 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 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Neil Bellamy
District Auditor
9 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially 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
Draft financial statements free from error	No	7
Adequate internal control environment	Yes	7
Use of resources	Results	Page
Use of resources judgements	Yes	11
Arrangements to secure value for money	Yes	11

Audit opinion

- 1 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.

Financial statements

- 2 The draft financial statements presented for audit contained a number of errors, including the omission of the Housing Revenue Account, which was not closed until 31/3/09. We are currently reviewing the treatment of the VAT Shelter income as revenue rather than capital, and considering whether an adjustment in relation to this is required.
- 3 We have agreed a number of amendments to the core financial statements. We have also agreed with your officers a number of other presentational amendments.

Use of resources

- 4 2008/09 was the first year of a new approach to our Use of Resources assessment. As has been well publicised this is broader and more challenging than previously. Overall, subject to national quality assurance, we assessed the Council as **[Embargoed until 14 September - updated page will be provided at the meeting]**.

Key messages

- 5 This is a positive result for the Council, given the more challenging assessment method.

Audit Fees

- 6 We wrote to the Deputy Chief Executive in June 2009 to explain that, in our original audit plan, the estimated fee for the opinion audit was based on the best estimate at the time and agreed at £61,940. However, due to the additional work involved in considering the VAT shelter we may need to charge an additional fee.
- 7 Once all the work has been completed we will review the fee charged and discuss any increase with the Deputy Chief Executive.

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 Accounts Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- 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 4); and
- agree your response to the proposed action plan (Appendix 6).

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 Audit work is nearing completion. Subject to satisfactory clearance of outstanding matters, 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.
 - 10 In particular I would wish to draw members' attention to the first item in table 2 below. Currently I am awaiting a further view from the Audit Commission on the proposed treatment of VAT Shelter income as revenue as opposed to a capital receipts. Currently I am awaiting further guidance from the Audit Commission over the correct accounting treatment of the receipts, but at this stage my view is that the income is a capital receipt. However I consider as at March 2009 the uncertainty not to be material to the statement of accounts, but of course this may change in forthcoming years.
 - 11 I will provide an update of progress at the meeting on the 17 September.
-

Errors in the financial statements

- 12 As we have come to expect over a number of years, the financial statements were free from material errors, although the HRA, a statutory account, had been totally omitted. Once this was drawn to the Deputy Chief Executive's attention an HRA account was provided to us. We have agreed with officers a number of presentational amendments as set out in Table 2 and Appendix 2.
- 13 In addition there are unadjusted errors as set out in Appendix 3. Correction of these errors would decrease the General Fund Balance by £441k. Your officers are proposing to make the amendment in respect of £24k in 2009-10. The adjustment relating to the VAT shelter is still being discussed

Recommendation
R1 Consider whether the unadjusted error should be corrected in 2008-09

Letter of representation

- 14 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 4 contains the draft letter of representation I seek to obtain from you.
-

Key areas of judgement and audit risk

15 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>The current economic downturn has had an impact on asset values generally, which may result in substantial impairment to the Council's assets</p>	<p>We have undertaken a detailed review of the Council's valuations and impairments and subject to amendments agreed are satisfied that the asset valuations are fairly stated</p>
<p>The Council is sole Trustee to the Howard Watson Symington Trust. We are currently assessing whether the accounts of this charity need to be consolidated within the Council's accounts</p>	<p>We have reviewed the Council's relationship with the Trust and have concluded consolidation of the Trust's accounts within those of Harborough DC is not required</p>
<p>We are required by International standards of Audit 240, 250 and 501 to obtain information from Those Charged with Governance (TCWG) about the Councils arrangements for minimising the risk that its accounts</p> <p>a) are misstated due to fraud including manipulation of the accounts; and</p> <p>b) do not comply with relevant laws and regulation</p> <p>We have written to TCWG and have been promised a response in the next few days.</p>	<p>A response has now been received and the necessary assurances obtained</p>
<p>Departure of long standing accountancy manager and employment of temporary cover</p>	<p>The work undertaken has not identified any significant error arising from the temporary cover, and working papers provided were based on the model left by the previous post holder.</p>
<p>Departure of both permanent and temporary revenues managers</p>	<p>No significant delays or problems were experienced as a result of the absence of the revenues manager.</p>

Accounting practice and financial reporting

16 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

Issue or risk	Finding
VAT shelter income	<p>The Council is currently treating this income, £465k, as a revenue receipt. While there is no definitive guidance on the treatment of this income there is a view that this should be regarded as a capital receipt as it is a product of the disposal of the Council's housing stock.</p> <p>At this stage, subject to further guidance from the Audit Commission my view is that the income is a capital receipt, I do not regard the uncertainty as material, but this may change in future years.</p> <p>Once I have received a further view on this matter from the Audit Commission I will discuss it with officers.</p>
Capitalisation policy	<p>There is no formal de-minimis level for capital expenditure. This will assist in ensuring that expenditure is correctly classified, particularly the distinction between revenue and capital expenditure.</p>
Disclosures in respect of financial instruments are incorrect	<p>The disclosures in notes 35, 36 and 37 have been amended to exclude statutory debts (council tax, NNDR) and prepayments, none of which is a financial instrument.</p> <p>These disclosures have no impact on the balance sheet.</p>
HRA	<p>As recorded in paragraph 12 above the accounts as presented for audit did not include an HRA, although consent to close the HRA was with effect from 31/3/09. An HRA account was provided when this was drawn to the Deputy Chief Executive's attention.</p>
Compliance with SORP	<p>There were a number of changes to the SORP this year which had not been</p>

Issue or risk	Finding
	<p>correctly reflected by the Council including:</p> <ul style="list-style-type: none"> • Disclosure of change in accounting policy regarding the valuation of pension fund equities • Disclosure of change in accounting policy regarding the treatment of revenue expenditure financed from capital under statute <p>In addition payments to Members had not been properly disclosed within the notes to the I&E account. This note has now been adjusted to reflect the true position.</p>
Related party transactions	At the date of the audit returns relating to related party transactions had not been received from 3 Members

17 We will discuss detailed recommendations with officers.

Recommendation
<p>R2 Ensure that Members respond promptly to requests relating to related party transactions from Officers</p>

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

- 18 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). The Use of Resources framework was changed this year and is broader and more challenging than previously and therefore no direct comparisons of scores can be made. 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.
- 19 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.
- 20 The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.
- 21 The scores are embargoed as they are still subject to completion of our use of resources national quality assurance process. Final scores will be notified to the Council by the Audit Commission on September 14th.

Table 3 Use of resources theme scores

Use of resources theme	Draft scored judgement
Managing finances	
Governing the business	
Managing resources	

- 22 The Council's arrangements across all areas are solid. They meet minimum acceptable levels of performance and are consistent with established practice and guidance, meet statutory requirements and operate effectively. Whilst all KLOEs have been assessed as [embargoed] there are, within these, some stronger aspects of performance, such as the culture of managing within tight budgets, but also areas where further improvement is required.

23 We have indicated areas for improvement in Appendix 5.

Recommendation

R3 Assess the areas for improvement in Appendix 5 and develop an action plan to strengthen arrangements in identified areas

Value for money conclusion

- 24** 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 5.
- 25** 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.

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

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Harborough District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, 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 Harborough 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 Deputy Chief Executive and auditor

The Deputy Chief Executive’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 accounting statements 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. 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 consider whether it is consistent with the audited accounting statements. This other information comprises the

Explanatory Foreword and the summary of accounts included in the annual report. 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 the 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 financial statements 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 regularly to 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.

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

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, Harborough 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.

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.

		Income and Expenditure Account (I&E) and Statement of Movement on the General Fund Balance (SMGFB) and Cash Flow Statement (CFS)		Balance Sheet/Statement of recognised gains and losses (STRGL)0	
Nature of Adjustment	Item of account	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Incorrect accounting treatment of correction of prior year error	Dr SMGFB – Depreciation and impairment of fixed assets	78			
	Cr I&E (Highways road and transport gross exp)		78		
	Dr CFS – reconciliation of net surplus deficit – reversal of capital charges	78			
	Cr CFS – reconciliation of net surplus deficit – I&E account		78		

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account (I&E) and Statement of Movement on the General Fund Balance (SMGFB) and Cash Flow Statement (CFS)		Balance Sheet/Statement of recognised gains and losses (STRGL)0	
Nature of Adjustment	Item of account	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Incorrect accounting treatment of HRA net income received in year	Dr STRGL Cr I&E discontinued operations – LAHousing HRA		44	44	
Incorrect treatment of area based grant	Dr I&E CDC CM income Cr I&E General Government Grants	23	23		
Incorrect accounting treatment of Revenue Expenditure Financed from capital under statute (REFCUS)	Dr CFS – reconciliation of net surplus deficit to revenue activities net cash flow – reversal of capital charges Cr CFS – other capital cash payments	388	388		

In addition to the a your officers have now provided a Housing Revenue Account and supporting notes.

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.

Description of error	Accounts effected	Value of error £k
The drawdown to I&E from S106 revenue sums has been understated. This results in the general fund balance being understated by £24k	Dr Creditors S106 receipts Cr I&E – Cultural, Environmental and Planning	24
The income received in the year from the VAT shelter has treated as a revenue, not capital, receipt. This results in the revenue balances being overstated by £465k	Dr I&E (HRA and I&E) Cr Useable Capital Receipts Reserve Dr Earmarked Reserves (VAT shelter reserve) Cr I&E (appropriations to earmarked reserves)	465

Appendix 4 – Draft letter of representation

To:

Neil Bellamy
District Auditor
Audit Commission
7 Lewis Court
Grove Park
Enderby
Leicestershire
LE19 1SU

Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Harborough District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

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/United Kingdom Generally Accepted Accounting Practice which present fairly the financial position and financial performance of the Council 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 Accounts Committee who have agreed that the effects of the uncorrected misstatements listed in the attached schedule are not material to the financial statements.

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 Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include such disclosures, if any, relating to going concern.

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 Council.

The Council 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 4 – Draft letter of representation

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

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. 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;
- there are no material commitments or contractual issues; and
- no financial guarantees have been given to third parties.

Howard Watson Symington Memorial Charity

I confirm that the Council has no responsibility for meeting any liabilities of the Charity in the event that the Charity is wound up, subject to the Council as Trustee having acted with due care and diligence within the scope of the objects of the Charity's Scheme

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 Accounts Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council 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 Harborough District Council

K Mehta

Deputy Chief Executive

Date

Appendix 5 – 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 1 Managing finances

Theme score	
Key findings and conclusions	
<p>The Council manages its finances adequately overall. Its focus has been balancing a potential budget deficit of £1.2 million while maintaining services rather than using financial management to improve services. The MTFP reflects the strategic objectives and priorities over the next three years. There is little direct involvement of the public in financial planning or what public financial reports should contain. Variations in financial performance are identified promptly and corrective action taken. Debt collection and recovery is could be strengthened further.</p> <p>The Council has a sound understanding of costs overall and has a strong culture of managing tight budgets and keeping costs low and as a result there has been less of a focus on improving performance. VFM is adequate. The Council has achieved efficiency savings.</p> <p>The council’s draft accounts did not fully comply with statutory requirements as the HRA was omitted. The council has published its 2008-09 annual report & annual audit letter on its website and the annual accounts will be published by 30th September 2009.</p>	
KLOE 1.1 (financial planning)	
Score	
VFM criterion met	Yes
Key findings and conclusions	

Integrated Financial Planning

The Council integrates its financial and corporate planning processes adequately and the 2009-10 approved budget flows from the approved 2009-10 MTFP and asset management plan. Managers contribute to the planning process and have a satisfactory understanding of their roles and responsibilities. The Council sets a comprehensive and balanced budget based on realistic assumptions. In 2008-09 a £1.2m deficit was identified and the council has taken difficult decisions to eliminate this deficit. An adequate treasury management strategy is in place for 2008-09 which fulfils the CIPFA code of practice and prudential code. The Council set a soundly based policy on the level of reserves and balances, but it has breached this in 2008-09 and continues to do so into 2009-10. The risks associated with this have been considered by members and the breach will be remedied once the transfer from the HRA is finalised. The Council approves the annual budget on a timely basis.

Medium to long term financial planning

Previous delays in the production of the MTFP have been resolved and it reflects the strategic objectives and priorities for the year, and over the next three years. It states the assumptions upon which the plan is based and takes account of both local and national priorities but there is little evidence of modelling or scenario planning. Members have been heavily engaged in the MTFP approval and planning process. Although the MTFP outlines the council's new priorities, it is too early to assess whether improved outcomes in terms of changing priorities will result.

Engages with stakeholders

The council has acknowledged the importance of stakeholder involvement in service planning and delivery. Communication with stakeholders takes place via parish meetings and state of the district debates but there is little direct involvement of the wider community in financial planning. There is no evidence of participatory budgeting where local communities are empowered to make spending decisions. The council has adequate arrangements in place to make equalities impact assessments on all new projects and policies. The MTFP was not subject to an overall EIA, however the policies held within it will have been.

Managing spending

The Council has an adequate record of managing its spending with a history of setting realistic budgets and being transparent in the budget setting process. Budget monitoring in 2008-09 effectively identified a shortfall in the short and medium term and a special report was issued to Council to address this in Nov 2008. Action has been taken to reduce the cost pressures in the short term. The financial standing at the authority is under pressure; and the Council is taking steps

Appendix 5 – Use of resources key findings and conclusions

to address this. However, debt collection and recovery could be strengthened with £2.7m (£843k over a year old) outstanding in March 09 and £350K of old debt written off.

Financial governance & leadership

Councillors and the corporate management team exercise collective and individual responsibility for financial matters. Councillors communicate with heads of service for their portfolio areas regularly and here is a history of sound financial governance with appropriate training and delegation to staff. Audit committee responsibilities are undertaken by a scrutiny panel but this does not fully comply with the CIPFA good practice code. Councillor involvement in the MTFP provides an example of member challenge of the effectiveness of the plan. However, given the delays involved and the lack of evidence, as yet, of improved outcomes from this, it is too early to judge the effectiveness of this.

Areas for improvement

- Ensure that the MTFP is updated on a regular basis, and consider the use of modelling or scenario planning in this
- Involve the wider community in financial planning, including the use of participatory budgeting.
- Review the level of outstanding debt and the arrangements in place to identify and recover this

KLOE 1.2 (understanding costs and achieving efficiencies)

Score

VFM criterion met

Yes

Key findings and conclusions

Understanding costs

The Council has a sound understanding of its costs overall. This year its focus has been on finding ways to meet the potential overall budget shortfall of over £1 million through the Business Priorities and Efficiency Review (BPER) project. This has led to staffing cuts and consequently some service reductions. It has protected front line delivery of services and high priority services. However systematic analysis of costs across the council over time is not in place and there is limited understanding of the resources available to significant partnerships.

Decision-making

In taking decisions, the Council considers social impact. For example it decided to retain community safety posts while reducing staffing in arts and culture. The Council rejected an option to increase car parking charges in the towns to

Appendix 5 – Use of resources key findings and conclusions

increase income as it is committed to supporting economic activity in the towns. It has also reduced hours in some service points but only where there has been a reduced use by the public. The Council uses unit costs and transaction costs to inform its major outsourcing projects which include housing, leisure and street scene. The Council's capital programme supports corporate priorities and new projects are assessed using a scoring system which reflects this. However delivery of projects is slow. It has delivered 69 per cent of its programme by expenditure in 2008/09 with the main reasons for non delivery being delays in securing match funding or decisions to widen the scope of the scheme and seek additional funding, for example Station Road Car park, Lutterworth. Others are due to awaiting planning approval, tenders and where work has started but not yet finished. Most funding is being carried forward so that the schemes will be delivered although later than planned.

Making efficiencies

There are examples of benchmarking in the Council. As part of the efficiencies project, the development control team proposed the introduction of fees for some work where these were not being charged in Harborough but were in other councils. Staff made several proposals for efficiency savings and were delegated responsibility to implement them. Costs are closely monitored and understood by councillors and officers. The Council has a strong culture of managing tight budgets and keeping costs low but there has not been such a focus on improving performance. Value for money is adequate. The Council's spending profile is similar to last year when it was judged to be a low spender with below average overall performance. 2008/09 performance is variable, achieving 82 per cent of local performance targets but only 59 per cent of its priority actions being delivered compared with 95 per cent last year. The Council has achieved efficiency savings of £363,000 in 2008/09 continuing its sound record of previous years. It is considering shared services with other councils to reduce costs further, such as the payroll administration.

Areas for improvement

- Obtain an understanding of the costs of council services over time and update this on a regular basis to assist in performance management
- Review the level of resources available to significant partnerships and the impact of changes in these on the Council's high priority services

KLOE 1.3 (financial reporting)	
Score	
VFM criterion met	Yes
Key findings and conclusions	

Appendix 5 – Use of resources key findings and conclusions

Financial monitoring and forecasting

Financial monitoring and forecasting is adequate and budget monitoring and forecasting information is reliable, relevant and understandable. The Council identifies variations in performance promptly and corrective action is taken. For example, £1.2m deficit identified in 08-09 led to special meeting of executive and a recruitment and uncommitted expenditure freeze. However, this was reactive rather than proactive. It is not clear how the Council reviews the financial performance of its significant partnerships. The Council's internal audit provides assurance that coverage of key financial systems (including budgetary control) is adequate. The Council has complied with the required deadlines for the accounts closure in 2008-09. There are no significant variations between in-year financial monitoring and forecasting information and that reported to external stakeholders at year end, but there is no evidence that forecast information is subject to risk and sensitivity analysis. The council has not adjusted its budget and reporting cycle to respond to developments e.g. faster close down or better performance outcomes.

Using fit for purpose financial reports to monitor performance and support strategic decision making

The Council regularly reviews financial performance alongside performance information. Cabinet and committee reports include financial and non financial information with a written commentary that explains the underlying position. Councillors receive quarterly summarised information linked to strategic objectives that is relevant and of appropriate quality to meet their needs. Budget monitoring is regular and the Council has taken action in 2008-09 to reduce overspends. This has involved staff redundancies and a freeze on recruitment resulting in the use of interim staff where employees have left key positions. Any impact on service delivery is not yet clear. Budget holders have access to monitoring and forecasting information via the TEN system, which allows them to monitor their budgets freely, but profiled financial monitoring reports are not provided to budget holders and although flexible reporting tools are available via the e-financials system these are only available on request from the systems administrator & not used frequently.

Preparation of accounts

The 2008-09 accounts were approved on time and it is intended that the accounts will be published by 30th September 2009. The draft accounts did not fully comply with all statutory requirements as the HRA was omitted and they contained a number of non trivial errors. Sufficient working papers and audit support were provided apart from, evidence to support significant year on year variations which was only available on request. There have been changes in key accountancy staff during 2008-09 and the authority faced capacity issues during the closedown period making it more difficult to identify and address key changes to statutory requirements & accounting standards.

Appendix 5 – Use of resources key findings and conclusions

Publishing reports

The 2008-09 annual report and latest annual audit letter are available to the public via the council's website. The Council understands that residents have different needs and its reports are available in different formats (e.g. other languages, on CD, larger font) on request. It has not consulted with residents about the format or content of the report which takes the same format as the previous year. External reporting on the whole is timely but does not include detailed environmental and social information or an analysis of the council's environmental footprint in 2008-09.

Areas for improvement

- Use risk and sensitivity analysis when producing financial monitoring and forecast information
- Provide profiled financial monitoring reports to budget holders
- Raise awareness of the availability of the flexible reporting tools to budget holders and increase take up
- Consult with residents and businesses on the format of the annual report
- Include detailed environmental and social information and analysis of the Council's environmental footprint in the annual report

Table 2 Governing the business

Theme score	
Key findings and conclusions	
<p>The principles of good governance are in place with constructive working relationships between councillors and officers but governance arrangements in the Council's key partnerships are not fully developed. Commissioned services and service reviews have led to efficiencies. Data quality is adequate with plans for improvements. Data sharing with countywide partners to monitor delivery of the countywide SCS is good but underdeveloped in local partnerships. Business continuity plans are adequate but not all data is subject to consistent risk management arrangements.. The Council's arrangements for risk management and internal control are adequate. The Council identifies and mitigates against its own risks and has sound counter fraud and corruption arrangements, but these arrangements do not extend</p>	

Appendix 5 – Use of resources key findings and conclusions

into significant partnerships. The council does not have a specific audit committee, delegating those duties to a scrutiny panel but this does not fulfil the range of requirements of an audit committee such as overseeing management action in response to issues raised by external audit or gathering assurance of risk of the viability of partners and contractors in its business continuity plans.

KLOE 2.1 (commissioning and procurement)

Score

VFM criterion met

Yes

Key findings and conclusions

Clear vision of expected outcomes

The Council's long term vision for the area is set out in the sustainable community strategy (SCS) which has recently been revised to reflect the countywide SCS. These are based on shared needs analyses and consultation with the public but it is unclear from the Harborough SCS how these shared outcomes are to be commissioned and delivered. For example, there is no action plan outlining who is taking responsibility for the supporting priorities, how they will be delivered and by when. One priority neighbourhood, Welland Ward, has been identified so that services can focus on the most vulnerable. The Council has set out how its priorities and actions contribute towards the SCS outcomes and LAA targets.

Extensive involvement in commissioning

The Council consults with stakeholders and service users, including the most disadvantaged, increasingly about priorities and service design, but not systematically in the full commissioning cycle. Consultation with children informed the design of improved play facilities at Welland Park and Ashley Way. Consultation with the Gypsy and Traveller community identified and overcame barriers in children accessing schools and pre-school activities, leading to improved attendance and punctuality and greater communication between schools and parents.

Improvement through service redesign

The Council is improving access to services. It has launched a more interactive website enabling applications and bills payments to be made online, however difficulties with voice recognition software have delayed the availability of 24 hour telephone payments. The Council is in discussions with the County Council about possible shared premises in the area that would include relocating out of the current town centre offices and providing a new location for the library, museum and a town centre customer service point.

Understanding the supply market

The Council commissions services in a variety of ways. Its waste and streetscene contracts are with private suppliers while leisure facilities are provided through a trust. The Council's large scale procurement, such as insurance, is through the Welland partnership which leads to savings. The Council is introducing an e-procurement module for staff to use for smaller contracts which will be populated with local suppliers to support the local economy but it is not yet in place. The Council has increased some grants to the voluntary sector, including those to meet increased costs at the Lutterworth one-stop shop and to South Leicestershire CAB in recognition that the economic downturn is likely to affect vulnerable people most. This meant that SLCAB helped people to claim nearly £200,000 in state benefits to which they were entitled and assisted people with debts of over £2.6 million. The procurement policy is on the Council website as an aid to contractors.

Evaluation of procurement options

The Council has an open approach to procurement using different methods as noted above. The leisure trust is significantly reducing costs and enabling funds to be re-invested into the services. The Council incorporates full life costing into procurement decisions, such as the leisure contract which includes full maintenance of facilities and the new Streetscene contract from April 2009.

Service competitiveness and value for money

The Council's programme of service reviews has been superseded by the BPER but during 2008 it reviewed two services; overpayments in revenues and benefits and corporate administration. It has significantly increased the rate of recovery of overpayments in 2008/09 and made savings of £79,000 through increased use of ICT which have been re-invested in priority areas.

Areas for improvement

- Clarify how shared outcomes in the Harborough SCS are to be commissioned and delivered
- Expedite the implementation of the e-procurement module for smaller contracts

KLOE 2.2 (data quality and use of information)

Score

Appendix 5 – Use of resources key findings and conclusions

VFM criterion met	Yes
Key findings and conclusions	
<p data-bbox="226 272 1402 304">Produces relevant and reliable data and works with partners to secure data quality</p> <p data-bbox="226 317 1980 719">The commitment to data quality (DQ) is demonstrated through an agreed Strategy and reference in the Council's business plan. While there are no specific DQ targets in the business plan the Council is developing a DQ action plan through a series of workshops in June, July and Sep 2009 and portfolio plans and team plans include a requirement to implement their part of DQ action plan. Roles and responsibilities in relation to DQ are generally understood but with one or two exceptions are not consistently and formally documented in job descriptions or standards for staff. The DQ Strategy is the main policy document covering all areas of the Council and there are robust and accessible procedures set out for the main Performance Management System. However spot checks in 2007/08 and 2008/09 showed that while the data quality was adequate there is no central test checking in the Council. In order to deliver the LAA targets, the Council has integrated its electronic data system with other councils including the county council so that timely and accurate tracking of countywide and local targets can take place. While there are protocols for data sharing with the partners in the countywide strategic partnership, there are none for the local Harborough partnerships and contractors.</p> <p data-bbox="226 778 920 810">Provides information to support decision making</p> <p data-bbox="226 823 1980 1110">The Council produces information to support decision making. The TEN system is used to provide standard reports on PI data, status of service plan actions and equality impact assessments. Managers can request tailored reports from the system administrator and have some ability to manipulate data in provided spreadsheets. Performance information is used to report corporate progress on performance and monitor service delivery. The focus is on the indicators agreed in the Business Plan. Performance reports are not routinely copied to teams but they do use discrete extracted performance information to highlight and discuss local issues. The Council has improved its management of performance by introducing performance clinics where managers are held to account by senior officers but it is too early to measure their effectiveness.</p> <p data-bbox="226 1169 1173 1201">Ensures data security and compliance with statutory requirements</p> <p data-bbox="226 1214 1928 1396">Business critical systems are tested annually and reports on the results are prepared for the Council. The Council has a ICT Disaster Recovery Plan which covers the procedures and actions to be taken in the event that systems fail. Data is protected to some degree by controls on users and levels of access and passwords. DQ is not a separate and specific review by IA but is integral to a large number of regular reviews. Service areas are subject to internal audits which implicitly cover the robustness of underpinning data. There is a risk management tool built into the TEN performance</p>	

Appendix 5 – Use of resources key findings and conclusions

management system which ensures agreed PIs are assessed. However other data is not subject to consistent risk management arrangements.

Monitors performance against priorities

The Council monitors performance against its priorities regularly. Councillors receive performance and financial reports together quarterly while officers review these monthly. This enabled the Council to take early action to reduce predicted overspends in 2008/09. All reports address equalities issues and the Council's annual priority setting round is informed by needs analyses jointly provided with the LSP. The Council has improved its management of performance by introducing performance clinics where managers are held to account by senior officers.

Areas for improvement

- Formally document in job descriptions or standards for staff the roles and responsibilities in relation to DQ
- Adopt protocols for data sharing for local Harborough partnerships and contractors
- Adopt consistent risk management arrangements for all data and data security

KLOE 2.3 (good governance)	
Score	
VFM criterion met	Yes

Key findings and conclusions

Principles of good governance

The principles of good governance are in place. The assurance framework provides information to support the governance statement which is embedded in the Council's business. Working relationships between councillors and officers are constructive. Councillors have driven the BPER leading to setting the reduced budget with staffing and service reductions. Officers provided a set of options which were adjusted by the Executive. A new code of conduct was adopted in 2007 and all members have received training as a result. Councillors do not have annual appraisals or personal training and development plans but the Leader has ensured that it is included as one of the council's priority actions for this year.

Purpose and vision

The Council's vision is clearly set out in its business plan and echoed in the SCS which is directly aligned with the

Appendix 5 – Use of resources key findings and conclusions

countywide SCS. Both were based on detailed needs assessments taking into account the needs of minority and vulnerable groups. The Council has set priorities for the business year and demonstrated how they support the priorities in the SCS.

Ethical framework and culture

The ethical framework is sound. The Standards committee is promoting its role effectively. It has an action plan on ethical governance which includes publicising its role in the Council and to the public. The chair of standards committee has met with the leader and the leader of the opposition to discuss implementation of the new system of local assessment of complaints. How to complain is outlined in the council newsletter and a new complaints leaflet has been produced. The Council complies with the requirement to submit an annual report to the Standards Board for England outlining its ethical governance arrangements. While the Council maintains a register of members' interests and a gifts and hospitality register, neither is available on the Council website. There are sound arrangements for paying member and officer allowances. The Council's whistleblowing policy has been used by staff and issues raised investigated by the section 151 officer.

Partnership governance

Governance arrangements in the Council's key partnerships are not fully developed. Governance arrangements are in place for the Welland partnership, which procures services on behalf of its members. The Harborough LSP has agreed a partnership agreement in order to develop its governance arrangements. This includes sections on purpose, vision, principles, structures, membership, budget and resource management, communication and support arrangement for the LSP.

Areas for improvement

- Ensure the delivery of annual appraisals and personal training and development plans for Councillors
- Make available on the Council's website the register of members' interests and the gifts and hospitality register.
- Further develop governance arrangements for the Council's key partnerships.

KLOE 2.4 (risk management and internal control)

Score

VFM criterion met

Yes

Key findings and conclusions

Risk Management

Risks are identified as part of annual business and service planning and the risk register is updated accordingly. Corporate and business risks link to strategic objectives, are assessed in terms of likelihood and impact, assigned to named individuals and regularly reviewed and reported to the scrutiny panel. However risks relating to significant partnerships are not assessed by the Council or in partnerships and no partnership risk registers exist. The Council is reviewing its risk strategy in 2009-10 and is looking to address this. It has an adequate programme of member and staff training on risk.

Counter fraud and corruption arrangements

The council has sound counter fraud and corruption arrangements in place but IA reported in 2008-09 that the strategy is now out of date. The strategy relies heavily on financial regulations and internal controls, rather than committing to any positive action to reduce the Council's vulnerability. Fraud is managed as a corporate risk and the Council has a zero tolerance approach. HB fraud investigation is adequately resourced. The Council has a sound record of imposing prosecutions and recovering fraud overpayments. While the Council monitors fraud and corruption activity it could strengthen its corporate approach e.g. by using benchmarking. It effectively participates in NFI exercises. Adequate deterrents are in place including the publication of successful cases of proven fraud and corruption. Counter fraud and corruption arrangements are not extended to partnerships. Codes of conduct exist for employee and member behaviour.

System of internal control

The council has an adequate system of internal control. The scrutiny panel delivers the core functions of an audit committee but does not fully meet CIPFA guidance. The scrutiny panel does not review the External Audit (EA) opinion and other reports to members or oversee management action in response to issues raised by EA. IA is effectively provided by Welland IA consortium which is partially or fully compliant with all CIPFA standards. Standing orders, financial instructions and scheme of delegation are embedded. Structures are in place to ensure adequate governance. The AGS is an open and honest self assessment of performance and based on an independent viewpoint. It includes an action plan to address performance gaps. The council has a business continuity plan in place which is tested and meets the Civil Contingencies Act 2004 by working in partnership with three partner councils. Resources are pooled to employ two FT emergency planning officers. The Council is also partner in the Leicester resilience forum where joint threats are agreed in a community risk register & a joint plan is in place to address the roles & responsibilities needed to mitigate these. It is not clear whether the Council gathers assurance based on the viability of its significant contractors and partners in its

Appendix 5 – Use of resources key findings and conclusions

business continuity plans.

Areas for improvement

- Introduce systems for assessing the risks relating to significant partnerships
- Introduce partnership risk registers
- Extend the Council’s counter fraud and corruption arrangements to partnerships
- Consider the use of benchmarking to identify possible areas of fraud or corruption
- Consider constituting a stand alone audit committee, fulfilling the requirements of an audit committee under CIPFA guidance. This could also fulfil the role of Those Charged with Governance currently fulfilled by the Accounts Committee.
- Clarify arrangements for gaining assurance on the viability of significant contractors and partners and update business continuity plans accordingly

Table 3 Managing resources

Theme score	
Key findings and conclusions	
The Council’s arrangements for workforce planning and development are adequate. It has recognised and is working on the need to improve its skills development, workforce planning, and performance management of staff. Recruitment difficulties have led to interim appointments and lack of continuity which the pay and grading review and use of market supplements may mitigate. Finding the £1.2 million budget deficit has led to staffing reductions which the Council managed well. It has reduced staff sickness absence significantly.	
KLOE 3.3 (workforce planning)	
Score	
VFM criterion met	Yes

Key findings and conclusions

Productive and skilled workforce

The Council's arrangements to ensure a skilled and productive workforce are adequate. It is currently working on improving some basic requirements such as identifying skills gaps and up to date workforce planning. The Council has had recruitment difficulties in some crucial posts, in part due to lower salaries than competitor councils, but a salary review is imminent. In the meantime, market supplements have been used for some posts but the Council has been hampered by the lack of continuity in these posts despite using interim and temporary staff. The Council has been focused on the need to find £1.2 million savings to produce a balance budget for 2009/10. This included a vacancy freeze immediately until the size of the staff reductions was finalised. This increased the use of temporary and interim staff. Following the review, the staffing complement was reduced overall by 16.5 full time equivalent posts. The Council is revising its current recruitment strategy and has recognised that managers need skills in recruitment and selection. It currently promotes the advantages of working in the public sector in a small rural environment and increasingly advertises its posts on the internet rather than through the press. The Council is improving its performance management of staff. It is revising its capability and appraisal policies and practises. Human resources staff are working more closely with managers when there are performance or timekeeping issues. Following a survey with the trades union last year that identified high levels of stress among staff, telephone and face to face counselling sessions were made available and these are fully booked. These measures have been productive with a significant reduction in staff absence. It has reduced from 10.18 days in 2007/08 to 8.30 days per fte in 2008/09, better than target. Staff have annual appraisals although only 89 per cent were completed within the required three month period this year.

Workforce planning

Workforce planning is underdeveloped. It has been brought into sharp focus by the BPER and the urgent need to balance a significantly reduced budget. The Council is undertaking a corporate needs analysis of its workforce having already identified that its workforce is aging and there is no-one employed under the age of 20 years. As a result the Council is considering introducing modern apprenticeships. It has also identified a need to improve managerial skills and 25 staff have completed the LRIP management training course.

Organisational change

The Council involves its staff appropriately in organisational change that directly affects them. For example in the BPER, the Council kept staff well informed with regular corporate and team briefings and invited contributions from all staff with suggestions for making efficiencies.

Appendix 5 – Use of resources key findings and conclusions

Diversity and good people management

The Council has adequate arrangements for a diverse workforce and good people management. Recruitment and selection is based on merit and the council's staff broadly reflects the local population other than the relatively few young people employed. The Council has achieved level two of the equality standard for local government in line with most other councils and it has started to make progress on its duty to promote race equality. The induction programme for new staff now includes raising awareness of equalities issues in the Council's work. The pay and grading review, already implemented by many councils, is planned to be implemented this year.

Areas for improvement

- Undertake a skills gap analysis of the workforce
- Ensure all annual appraisals are completed within the required three month period
- Expedite the corporate needs analysis of the workforce currently underway

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 - Recommendations						
7	R1 Consider whether the unadjusted error should be corrected in 2008-09	3	TCWG			
10	R2 Ensure that Members respond promptly to requests relating to related party transactions from Officers	3	TCWG			
12	R3 Assess the areas for improvement in Appendix 5 and develop an action plan to strengthen arrangements in identified areas	3	TCWG			

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