

# Bournemouth Borough Council 2006/07 ISA 260 – FINAL Report to those charged with governance



Government and Public Sector

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Bournemouth Borough Council  
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18 September 2007

Ladies and Gentlemen

**2006/07 Report to those charged with governance**

We are pleased to present our report on the results of our audit work for 2006/07. We hope that the information contained in this report provides a useful source of reference for members. This is our last year as your external auditors: we would like to thank Members and officers for their co-operation over the period of our appointment and wish the Council well in the future.

If there are any questions relating to this report, please contact either Greg Rubins or Michelle Hillman.

Yours faithfully

PricewaterhouseCoopers LLP

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**Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In March 2005 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

  

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# Executive summary

## **The purpose of this report**

This report summarises the results of our audit work from our 2006/07 audit of accounts. It includes the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance". It also includes the results of the work we have undertaken on 'Use of Resources' under the Code of Audit Practice, to support our formal conclusion in this area.

Our work during the year was performed in line with the plan that we presented to you in July 2006. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix A to this report. We have set out below the most important issues and recommendations that we have discussed with you in the course of our work.

## **Financial Statements**

The overall quality of the accounts and working papers were of a high standard and we expect to issue an unqualified opinion on the financial statements. We identified that the equal pay back pay provision of £3 million had been misclassified as a creditor and some minor accounting and disclosure discrepancies were identified, which were adjusted by management. Also there are some minor points to bring to your attention; these are included in Appendix B to this letter.

## **Financial Standing**

In 2006/07, the Council's General Fund balance increased by £1.37 million to

£8.7 million compared to a revised budget of an increase in the general fund balance of £0.25 million. The difference of £1.12 million underspend was due to prudential borrowing savings and other small unrelated variances across a number of departments. As the Council has experienced underspends in the last couple of years management should continue to review budget variances closely to help improve the accuracy of budgets.

During our interim visit, we identified some control issues. The key recommendations related to:

- Reviewing the new finance structure particularly the various unfilled posts which could increase following the results of Route to Review;
- Improving control account reconciliations;
- Effectively reviewing IT access rights and system logs;
- Improving the contracts tender process.
- Ensuring that the IT issues raised over several years are addressed.

We also identified a control issue around financial reconciliations during our audit of the financial statements; this is included in Appendix D to this report.

## **Use of Resources**

The Council scored 3 out of 4 on its Use of Resources last year which is a creditable achievement. Key areas identified for improvement related to value for money, where the Council scored a 2. In particular, we noted that the Council cannot yet demonstrate that the higher costs of some services are justified. We have presented our findings on value for money to the Council's management team and we are pleased to note that actions are in hand to address areas of weakness.

# Financial statements

## Accounts

We have completed the audit of the Authority's accounts in line with the Code of Audit Practice and Auditing Standards. The overall quality of the accounts and working papers were of a high standard and we expect to issue an unqualified opinion on the financial statements. We identified that the equal pay back pay provision of £3 million had been misclassified as a creditor, also some minor accounting and disclosure discrepancies were identified, which were adjusted by management.

Key areas to draw to your attention within the financial statements are as follows:

- The Equal Pay Back Pay (Single Status) Provision of £3 million was based on an estimate of likely costs at the year end of the possible claims for back pay as a result of the 'Route 2 Review'. Therefore the Council needs to review this provision closely to ensure that the amount estimated is updated regularly as and when further accurate information becomes available.
- The AFC Bournemouth Loan of £250,000 due for repayment in 2005/06 has been extended and the Council has agreed that AFC Bournemouth can repay the value of the loan in the provision of community services. Therefore the Council need to continue to closely monitor the provision of these services.

## Accounting Issues

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature (i.e. items less than £1,000 in value). All errors that were identified during our audit work were brought to the attention of management and corrected in the accounts. Accordingly there are no matters in connection with this area that we need to report.

It is also our responsibility to bring to your attention any significant errors which have been corrected by management and any other points which we consider you should be aware of in fulfilling your governance responsibilities. These are set out in Appendix B to this report.

## Systems of internal control

We are required to report to you any weaknesses in the accounting and internal control systems identified during the audit. We have set out details of the control weaknesses that we have identified as part of our audit of the financial statements in Appendix D to this report.

Other key control recommendations raised during our interim audit visit include:

- The impact of the new finance structure, including the various unfilled posts, should be assessed to ensure there is adequate finance support and awareness at business unit level.

- All control account reconciliations should be performed, fully reconciled, checked and authorised on a monthly basis.
- The Council should ensure that contract tenders are effectively managed to avoid any further administration issues.
- Management should implement a formal logging process for recording system changes and errors. Formal procedures for approving and implementing system user requests should be produced. For example, all user requests should be logged through the 'Work' database; then appropriate approval should be sought before requests are implemented.
- The Council should implement a formal review of logs on a regular basis. Evidence should be retained from these reviews. Formal documented procedures for maintaining the Council's firewall should be developed. Management should actively monitor breaches or attempts to breach the firewall. Evidence of this monitoring should be retained.
- Formal procedures should be developed to ensure that new and updated users have their access formally approved by management before they are added to the key financial systems and the network. Procedures should also be developed to ensure that Personnel inform IT of staff members who have left the Council in order that their systems and network access is disabled. Also it is recommended that user rights should then be formally reviewed for appropriateness on a quarterly basis.

Further details can be found in the interim audit report issued to management. Overall, the Council control arrangements are generally adequate and we were able to place medium reliance on the work of internal audit; however there still remains scope to improve financial controls, specifically those relating to computer systems. We have raised the IT issues over several years and it is important that these are addressed.

As part of our controls work we carried out a more in depth review of a sample department, education, and found that improvements could be made to the budget setting process, ownership of budget areas could be enhanced, accounting support for the director should be assessed, system mapping of demand led services may be beneficial and detailed reviews by internal audit could help strengthened controls further. However, we found that arrangements were generally sound and the new director has already introduced a number of improvements.

#### **Revenue financial performance for 2006/07**

In 2006/07, the Council's General Fund balance increased by £1.37 million to £8.7 million, and the net operating expenditure was £124.48 million. Also the Housing Revenue Account balance increased by £8,000 in the year to £3.36 million.

The increase to the general fund of £1.37 million was compared to a revised budget of an increase of £0.25 million. The difference of a £1.12 million underspend was due to prudential borrowing savings and other small unrelated variances across a number of departments. As the Council has experienced underspends in the last couple of years management should continue to review budget variances closely to help improve the accuracy of budget setting.

Looking forward, the Council faces financial pressures from a range of sources including pensions. In terms of the pension liability, this was £134.8 million as at 31 March 2007 compared to £142.5 million as at 31 March 2006. This liability was based on Dorset County Council and Teacher Pension Additional Benefits under Financial Reporting Standard (FRS) 17.

For 2007/08 the Council has approved a Council tax increase of 3.24%. The Council has various risks in the 2007/08 budget e.g. investment income, concessionary fares, adult/children care and equal pay back pay (single status) expenditure and impact of pension liability triennial review so the Council will need to ensure that in the longer term financial balance can be achieved. The Council is implementing a pay and grading review (Route 2 Review) effective from April 2007 which has an impact on the Council's finances, although the impact has been considered as part of the 2007/08 budget. We comment further on value for money in the Use of Resources section.

### **Capital financial performance for 2006/07**

From 1 April 2004, the Council has been able to plan its capital expenditure under the new Prudential Framework. This focuses on ability to afford the consequences of spending decisions from future years' revenue and allows the Council to set its own limits on the borrowing needed to achieve an affordable capital strategy. In 2006/07 the Council's capital expenditure amounted to £38.9 million; a £9.7 million underspend on the revised capital budget of £48.6 million. The spend only represented 80% of the revised budget, underspends were due to delays in works, procurement and tenders and as a result of delays in grant and capital receipts. Therefore the Council should continue to review the management of its capital programme.

In addition, there are future risks for example the expenditure on Winter Gardens, Pavilion and Boscombe Spa developments that could have an impact on the capital programme. Also the Council needs to closely monitor income from the Bournemouth International Centre to ensure that it fulfils the requirements of the agreed business plan. We note that the Bournemouth International Centre received a subsidy of £1,456,000 from the Council in 06/07, which was in line with budget.



# Use of Resources, Data Quality, Best Value and Statement on Internal Control

## Work performed

In accordance with the Code of Audit Practice, we have performed work to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Our work to support our conclusion comprised the following elements:

- Use of Resources assessment for CPA:
  - Financial Reporting
  - Financial Management
  - Financial Standing
  - Internal Control
  - Value for Money
- Mandatory Data Quality Review work
- Audit of the Best Value Performance Plan
- Review of the Statement on Internal control

## Use of Resources assessment

The Council scored 3 out of 4 on its Use of Resources last year which is a creditable achievement. This reflects the fact that the Council is performing well in some areas such as financial reporting, financial management, [financial standing](#) and internal control. Key areas identified for improvement include:

- Demonstrating that high cost services provide value for money, or taking appropriate action to reduce costs.
- Developing further the value for money framework, e.g. by producing robust business cases to demonstrate procurement opportunities and exploring options for shared services.
- Consulting key stakeholders on the suitability of accounting and other information.
- Assessing how well capital expenditure has met the Council's capital objectives.
- Further work is required on calculating the opportunity cost of holding reserve balances and setting clear targets for income streams.
- Procedures should be strengthened to ensure that all members are trained in risk management.
- Partnerships should be centrally coordinated so that the Council can monitor whether governance arrangements are working well.

A table indicating the relevant scores for each component of the Use of Resources work is set out below:

Element of Use of Resource	Score
How good are the Council's financial accounting and reporting arrangements? (relates to 2005/06 accounts)	3
How well does the Council plan and manage its finances?	3
How well does the Council safeguard its financial standing?	3
How well does the Council's internal control environment enable it to manage its significant business risks?	3
How well does the Council currently achieve good value for money; and how does the Council manage and improve value for money?	2

- 1 = below minimum requirements – inadequate performance
- 2 = only at minimum requirements – adequate performance
- 3 = consistently above minimum requirements – performing well
- 4 = well above minimum requirements – performing strongly

Although the Council generally performed well, the score on value for money is disappointing and there was limited evidence of progress on this area during the period of review. However, we were asked to make a presentation to the management team on our findings and, following constructive discussions, the Council has invested resources in building a framework to assess and improve value for money in the future. This should, over time, lead to an improvement in the Council's score.

#### Use of Resources Conclusion

Under the Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of criteria issued by the Audit Commission. Our conclusion is based on the use of resources assessment

undertaken in November 2006 as part of the CPA process and updated as necessary, our Local Government data quality work, and other information that came to our attention during the course of our audit work.

We intend to issue an unqualified use of resources conclusion. Details of our conclusion for each of the criteria specified by the Code of Practice are set out in Appendix C.

#### Data Quality work

Our data quality work on the 2006/07 Council's overall management arrangements to secure good data quality, forms part of the Audit Commission's approach to the audit of Best Value Performance Indicators for 2006/07 and also informs our conclusion on the Council's Use of Resources (criteria 4 - 'the body has put in place arrangements to monitor the quality of its published performance information'.) The review has not yet been fully completed, but from the work carried out to date we are satisfied that the Council's arrangements are adequate.

#### Best Value Performance Plan

Our work on the 2006/07 Best Value Performance Plan (BVPP) resulted in an unqualified report being issued to the Council on 20th December 2006. We concluded that the Plan had been prepared in accordance with the relevant statutory requirements. Our work on the 2007/08 BVPP forms part of our 2007/08 audit work and we expect to be able to issue our report on this plan in December later this year.

#### Other reviews

In 2006/07, at the request of the Council, we undertook a review of the business case for the Winter Gardens redevelopment. Our work identified the risks and opportunities for the Council and recommended ways in which the case could be strengthened. Following a change in political leadership this scheme is still under review.

### **Statement on Internal Control**

Local Authorities are required to produce a Statement on Internal Control (SIC) which is consistent with guidance issued by CIPFA / SOLACE. The SIC was included in the financial statements.

We reviewed the SIC to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in relation to the Council's Statement on Internal Control.

# Audit plans and fee update

## Audit Plan 2006/07

We issued our Audit Plan for 2006/07 and presented it to Members in July 2006. We have performed appropriate reporting procedures for each of the risks identified in our Audit Plan of 2006/07. In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

## Audit fees update for 2006/07

We reported our fee proposals as part of the Audit Plan for 2006/07. Our actual fees were in line with our proposals.

	2006/07 Actual	2006/07 Fee proposal
Accounts	£180,600	£180,600
Use of Resources, Data Quality and Best Value	£61,700	£61,700
<b>Sub-total</b>	<b>£242,300</b>	<b>£242,300</b>
Inspection – service inspection	£49,408	£49,408
Inspection – other activity	£16,995	£16,995
<b>Total</b>	<b>£308,703</b>	<b>£308,703</b>

The fees set out include an amount of £66,403 charged by the Audit Commission's Relationship Manager, Martin Robinson.

Our fees for the audit of grant claims and whole of government accounts is based on the amount of time required to complete individual claims at standard hourly rates and are not included in the table.

In addition to the fees disclosed in the table, we performed work which relating to the Charities, Winter Gardens and Education System Reviews. Our proposed fee for this work was £68,575 and the actual fee was £68,575.

# Appendix A: Audit reports issued in relation to the 2006/07 audit year

The following audit reports have already been issued in relation to the 2006/07 audit year:

- Use of Resources – Assessment Results
- Interim Audit Control Report

## Appendix B: Summary of adjusted errors

The errors we identified during our audit of the financial statements have all been adjusted by management. However we did identify the following issues during our audit which we consider should be communicated to you to assist you in fulfilling your governance responsibilities:

- Audit testing identified that the equal pay back pay provision of £3 million had been misclassified as a creditor, also some minor accounting and disclosure discrepancies, these were appropriately corrected in the final 2006/07 accounts.
- The rules for calculating the Minimum Revenue Provision (MRP) have been amended for English authorities in 2006/07; therefore we were required to review the Council's working papers comparing the Capital Financing Requirement at 1st April 2004 to the value of the credit ceiling at 31 March 2004. There is a difference between the two values resulting in an adjustment being made when calculating the minimum revenue provision. We have accepted that this difference is insignificant however we suggest that this is discussed in detail with your future external auditors to assess whether a full reconciliation of the two values will be required.

# Appendix C: Use of Resources conclusion

The Audit Commission has published 12 Code of Practice criteria on which auditors will be required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its Use of Resources.

These code criteria are linked to the CPA and Data Quality Review Key Lines of Enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment of adequate for the purposes of the Code criteria. The Code criteria and the linked KLoEs are shown in the table below:

Code Criteria	Description	Associated KLoE	Use of Resources Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ Stage 1	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control	4.2	Performing well

Code Criteria	Description	Associated KLoE	Use of Resources Conclusion
6	The body has put in place arrangements to manage its significant business risks.	4.1	Performing well
7	The body has put in place arrangements to manage and improve value for money.	5.2	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	Performing well
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	Performing well
10	The body has put in place arrangements for managing performance against budgets.	2.2	Performing well
11	The body has put in place arrangements for the management of its asset base.	2.3	Performing well
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	Performing well



## Appendix D: Summary of recommendations

Recommendation	Management Response	Target Implementation Date
<p><b>Equal pay back pay provision</b></p> <p>The Council needs to review the equal pay back pay (single status) provision closely to ensure that the amount estimated is updated regularly as and when further accurate information becomes available.</p>	<p>The impact of Route to Review is being kept under review and will be reflected in the budget setting process. The provision in the 2007/2008 accounts will be reviewed at that time and will be informed by the latest information available from the Route to Review Team.</p>	<p>Ongoing</p>
<p><b>AFC Bournemouth Loan</b></p> <p>The Council need to continue to closely monitor the provision of services by AFC Bournemouth, to ensure they meet the value of the loan.</p>	<p>A joint arrangement is in place to ensure that the services provided are monitored and evaluated before the loan outstanding is reduced.</p>	<p>Ongoing</p>

Recommendation	Management Response	Target Implementation Date
<p><b>Finance structure</b></p> <p>The impact of the new finance structure, including the various unfilled posts, should be assessed to ensure there is adequate finance support and awareness at business unit level.</p>	<p>The impact of Route to Review is causing major problems in the recruitment and retention of appropriately qualified accountancy staff. This is against a background of a national shortage of qualified staff. This will impact on service delivery and is a major cause for concern.</p> <p>As a result of this workloads are being reviewed to ensure that the resources available are directed firstly in support of the Council's Statutory Financial Responsibilities.</p> <p>Whilst actively seeking to fill the posts, because of the recruitment difficulties we are seeking innovative solutions to address service provision.</p> <p>It needs to be borne in mind that a similar situation is developing in other central support functions including Risk Management, Internal Audit and ICT.</p>	<p>Ongoing</p>
<p><b>IT controls</b></p> <p>The IT issues raised in our interim control report, which have been carried forward for several years, should be urgently addressed.</p>	<p>Matter currently under review – including contacting other Council's to compare operational approaches to the issues raised in order to adopt best practice.</p>	<p>Ongoing</p>

Recommendation	Management Response	Target Implementation Date
<p><b>Revenue budget</b></p> <p>Management should continue to review budget variances closely to help improve the accuracy of budget setting.</p>	<p>Following the Organisational Development review responsibility for budget monitoring and control now rest with Business Unit Heads. This process feeds through the regular monitoring statements to the Executive Board and the Cabinet. Any budget variances will then feed through to inform the Medium Term Financial Plan and the budget setting process.</p> <p>The difficulties being experienced in the recruitment and retention of appropriately qualified accountancy staff could reduce the effectiveness of this process.</p>	<p>Ongoing</p>
<p><b>Capital programme</b></p> <p>The Council should continue to review the management of its capital programme, to reduce slippages.</p>	<p>Improved project management now in place through the use of the Resources Board.</p>	<p>Ongoing.</p>
<p><b>Bournemouth International Centre</b></p> <p>The Council needs to closely monitor income from the Bournemouth International Centre to ensure that it fulfils the requirements of the agreed business plan.</p>	<p>The formalised business plan monitoring arrangements in place with the Regional Development Agency will continue to monitor results against the business plan.</p>	<p>Ongoing</p>
<p><b>Value for Money</b></p> <p>The Council should continue to focus on demonstrating that its services provide value for money and to address services with above average costs and below average performance.</p>	<p>Council in process of developing project in partnership with external consultants to address approach to Value For Money.</p>	<p>Ongoing</p>

Recommendation	Management Response	Target Implementation Date
<p><b>Adjustment A</b></p> <p>The 'Adjustment A' difference on the Minimum Revenue Provision (i.e. difference between the Capital Financing Requirement at 1st April 2004 to the value of the credit ceiling at 31 March 2004) should be discussed with your future external auditors, to assess whether a full reconciliation will be required.</p>	<p>The new auditors have been approached to determine their exact requirements as soon as possible to maximise the time available prior to year end to produce any additional reconciliations they may require.</p>	<p>As soon as possible.</p>
<p><b>Year End control account reconciliations</b></p> <p>The Council's key system's control account reconciliations were reviewed to ensure that they were fully reconciled to the 'Oracle' accounting system at the year end. We noted the following points:</p> <ul style="list-style-type: none"> <li>• The reconciliation between the 'iWorld' housing management system and 'Oracle' accounting system showed a difference of £124.74.</li> <li>• The reconciliation between the payroll system and 'Oracle' accounting system showed a difference of £18.40.</li> <li>• The reconciliation between the 'IBS' benefits debtor system and 'Oracle' accounting system showed a difference of £23.93.</li> </ul> <p>We recommend that key system's control account reconciliations are fully reconciled on a monthly basis, to avoid any differences arising at the year end.</p>	<p>Agreed. All these minor differences on the reconciliations required information from non accounting staff.</p>	<p>To be resolved in reconciliations undertaken in 2007/08, when information available.</p>

