

# Annual Audit

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# Letter

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**Borough of Poole**

**Audit 2009/10**

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements: the audit of your financial statements (page 4); and my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 10).**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## **Audit opinion and financial statements**

**1** I issued an unqualified audit opinion on your financial statements on 30 September 2010. The accounts were well prepared and there are good systems of internal control. The Council is making satisfactory progress in implementing International Financial Reporting Standards.

## **Value for money**

**2** I issued an unqualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources for 2009/10 (the value for money conclusion).

## **Current and future challenges**

**3** The economic downturn is having a significant impact on public finances and the bodies that manage them. The budget in June and the October Comprehensive Spending Review propose significant reductions in central government support for local government over the next four years.

**4** The Council has forecast that it will need to make savings in the region of £29 million (10 per cent of GRE) in the period of the current medium term financial plan and has begun the process of achieving these.

5 Poole is a relatively low funded council receiving a lower proportion of its funding from central government (28 per cent compared with 47 per cent for similar councils), any additional funding requirement falls disproportionately on local taxpayers. The announced freeze in council tax increases for the next two years further increases pressure on the Councils ability to deliver its services.

6 The Council has made good progress in delivering savings and efficiencies and adopts a realistic and pragmatic approach to its service planning. However, it now needs to make savings and efficiencies of an unprecedented level. Given that the Council already has generally low cost services, it will provide the Council with its most significant challenge to date. Council Members will have to take some brave decisions and consider radical changes in service provision.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

**I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September, within the statutory target date.**

## Overall conclusion from the audit

**7** The draft financial statements for 2009/10 contained no material errors. They were of a good standard and produced in a timely fashion, maintaining the Council's record of performance over recent years.

**8** Only minor misstatements, mainly of a technical accounting nature were identified during the audit. The accounts were supported by excellent working papers and prompt explanations were received where required. The statements were compliant with required accounting standards.

**9** The most significant matter is the inclusion within the post balance sheet event note 30 of the effect of the Government's announcement that future pension increases will be in line with the consumer rather than retail prices index. This will have the effect of reducing the Council's pension liability by £19.9 million. The announcement was made in the budget on 22 June 2010 after the financial statements were produced.

**10** I issued an unqualified opinion on 30 September 2010, confirming that the 2009/10 financial statements presented fairly the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

## Significant weaknesses in internal control

**11** I did not identify any significant weaknesses in your internal control arrangements.

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## **2009/10 use of resources assessments**

**12** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**13** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**14** I report the significant findings from the work I have carried out to support the VFM conclusion.

## **VFM conclusion**

**15** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**16** A summary of my findings is overleaf.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Strategic asset management	Yes
Workforce	Yes

**17** I have prepared a detailed report ('Value for Money Conclusion') on our VFM work and have agreed its findings and recommendations with the Management Team. I understand that the Audit Committee will consider the report at its meeting in February 2011.

**18** My VFM report shows that the Council made good progress in strengthening its arrangements for achieving VFM in 2009/10, in all the areas specified by the Audit Commission. In particular, the Council improved:

- **medium term financial planning**, through the development of financial modelling and benchmarking;
- **understanding of costs**, through rigorous analysis and challenge of costs, and the development of investment appraisals and other techniques;
- **commissioning and procurement**, through the development of framework contracts and organisational changes; and
- **risk management**, with a stronger corporate focus.

**19** My VFM report identifies some development issues and makes recommendations in respect of these. In particular, there is scope for improving:

- **data quality**, by developing a corporate data quality strategy and data quality policies;
- **strategic asset management**, by developing a comprehensive accommodation strategy, in support of the corporate plan and the efficiency agenda; and

- **workforce planning**, by developing a comprehensive medium term corporate workforce plan that identifies the staff and skills the Council needs to deliver its strategic priorities, and sets out detailed plans for putting this workforce in place.

20 I issued an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Risk-based performance reviews

21 We have monitored the Council's arrangements for:

- the Twin Sails Bridge project, which is part of a 'core scheme' comprising a second harbour crossing, a new link road in Hamworthy and a messaging system to manage traffic flows; and
- the joint Bournemouth and Poole Building Schools for the Future (BSF) programme for investing in nine secondary schools across the conurbation, under the national BSF programme, prior to its cancellation by the new Government in July 2010.

## Twin Sails Bridge

22 Construction of the Twin Sails Bridge began in May 2010 and the public opening of the bridge is scheduled for early 2012. The bridge will provide a second harbour crossing between Poole town centre and Hamworthy. It will alleviate congestion and improve access to the port of Poole. It is also critical to the planned regeneration of 26 hectares of brown field land in Hamworthy (one of the largest regeneration areas in the South West) and to the wider regeneration of Poole town centre. This regeneration is expected to provide approximately 2,000 new homes, 5,000 new jobs and a range of new amenities.

## Funding strategy

23 The Council has taken some innovative approaches to securing public and private sector funding for the Twin Sails Bridge project. The total budgeted cost of the project is £37 million. Funding includes £8 million of the Council's own funds, grants of £15.34 million from the Department of Transport and £2.2 million from the Department for Communities and Local Government, a loan of £9.96 million from the South West Regional Development Agency, and receipts to date of £1.5 million from developer contributions (S106 funds).

24 The Council plans to repay the loan of £9.96 million from the South West Regional Development Agency using future developer contributions arising from the regeneration initiatives made possible by the Twin Sails Bridge. However, economic conditions and the depressed housing market mean there is some uncertainty about the amount and timing of these contributions. Challenges to the application of the South East Dorset Transport Contributions Policy also mean that there is some uncertainty

about planning contributions from this source. The Council is currently reviewing the funding situation.

### **Management arrangements**

**25** In April 2010, Internal Audit reported on management arrangements for the Twin Sails project, up to and including the award of the construction contract. The report concluded that there were adequate arrangements in place for governance and project management, budgeting and cost analysis, risk management, stakeholder communication, and the tendering and assessment processes. It also made recommendations to strengthen arrangements in some areas. Implementation of these recommendations is currently being reviewed by Internal audit.

**26** Cabinet receives regular progress reports on the construction of the bridge. The contractor has completed the initial site clearance works, and the bridge piling works are progressing in line with timetable. The Revitalising Town Centre Board continues to oversee the project and is sent monthly progress reports covering construction issues and health, safety, quality and environmental issues. Financial statements show actual and forecast expenditure and cash flow. The reports also include an up to date risk register.

**27** With the construction of the bridge now underway, management arrangements need to address different considerations to those that applied to planning the bridge, securing funding for it and the link road, and procuring construction. In particular, the construction of the bridge requires sound arrangements for:

- project management;
- financial control, including the management of stage payments and cash flow, budgetary control and out-turn forecasts;
- reporting performance to the Revitalising Town Centre Board against cost and quality requirements and the timetable;
- risk management, including construction risks; and
- communications with all stakeholders.

**28** An internal review of management arrangements for the construction of the bridge would provide the Council with the assurance that these are adequate.

**29** I understand that a review of these arrangements is currently being undertaken by Internal Audit.

### **Building Schools for the Future**

**30** The Bournemouth and Poole Building Schools for the Future (BSF) programme made good progress against the national timetable for Wave 6 schools, prior to the Government's cancellation of BSF. The joint Outline Business Case was published in November 2009 and approved by the Government, but failed to attract sufficient market interest for a Local Education Partnership (LEP). In consequence, in February 2010 the two councils agreed new joint procurement strategies for delivering the

construction, ICT and facilities management work streams required by BSF. When the cancellation of BSF nationally was announced in July, the local programme had reached the stage of inviting two short-listed contractors to tender for the construction work at Ashdown Technology College in Poole, as a BSF 'sample school', and issuing OJEU notices for ICT services (since cancelled).

**31** Some parts of the local BSF programme are going ahead. In August 2010, the Department for Education announced that capital programmes at sample schools would continue. It has since confirmed BSF funding for Ashdown College is £13.4 million for construction work and £1.5 million for IT. The Council (as lead authority) has re-started the procurement of building work at the college, under the National Contractors Framework. The Government has also assured the three academies in the programme (Bishop of Winchester Academy and Bourne Academy in Bournemouth and St Aldhelm's Academy in Poole) that capital will be allocated to them following the Comprehensive Spending Review. The National Contractors Framework can be used to deliver building and refurbishment projects at the Academies, which should bring economies of scale and make best use of the considerable local investment made in preparation for BSF.

**32** The two councils have taken steps to mitigate the costs and risks arising from the cancellation of the national BSF programme. Bournemouth Council will remain a partner in the procurement of building work at Ashdown College, under continuing joint governance arrangements, in order to reduce the risk of legal challenges and delay to this procurement. The joint operational BSF programme team has been disbanded, because of the costs and risks associated with this arrangement.

**33** BSF costs incurred to date will be allocated on a 50:50 basis between the two councils, in line with the original agreement, apart from costs specific to each council. The costs for each council are estimated at £1.75 million, from the start of the programme and including close down costs. Consultant legal, financial, design and construction advisers will be retained to support the Ashdown Technology College project.

## **Benefits Service inspection**

**34** We carried out an inspection of the Benefits Service and published our report in June 2010. We assessed the service as 'fair', with 'promising' prospects for improvement.

**35** Strengths of the service included the effective use of discretionary housing payments to support vulnerable people, and good relationships with internal and external partners. People were getting their new claims for benefit paid faster, and access to the service for people with specific needs was improving. Arrangements for detecting and preventing fraud were leading to more successful sanctions.

**36** Development issues included the need to reduce delays in dealing with changes in circumstance reported by claimants, and scope for improving value for money by benchmarking the service's comparatively high costs against other councils. The Council is currently implementing the recommendations made in our report.

## **Approach to local value for money work from 2010/11**

**37** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**38** My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**39** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

# Current and future challenges

## Spending review

**40** Earlier in this letter I referred to the difficult choices facing the public sector given the reductions in public expenditure. The recently announced comprehensive spending review anticipates a 26 per cent reduction in Government support for local government over the next four years. Much of this will be front loaded in the first two years.

**41** The Council's Medium Term Financial Plan 2010/11 to 2012/13 published in February already included assumed savings and efficiencies totalling £4.3 million. This built upon a stringent savings and efficiency programme throughout 2009/10 anticipating the financial conditions in 2010/11 and beyond. The Plan was revised in July following the Governments' budget announcements and reflecting that further savings of £4.2 million would need to be made in 2010/11. Further savings of £20 million over the remaining period of the Medium Term Financial Plan were also recognised as being required to bridge the funding gap.

**42** The Plan is in the process of being revised and savings in the region of £29 million will need to be achieved over the next three years.

**43** The management team of the Council has been reduced by one strategic director and the Council needs to consider how it maintains sufficient management capacity to effect the changes and savings required.

**44** It will be crucial in this time of significant change for the Council to consider and respond to the following issues.

- The resilience of medium term financial strategies and the ability to deliver significant efficiency savings.
- Consideration whether there are further savings to be made from sharing services and management teams.
- The need to retain enough management capacity to influence and respond to changes in patterns of demand for services.
- The need to preserve proper standards of governance through changes in the way services are provided.

## IFRS

**45** International financial reporting standards (IFRS) provide global common accounting and reporting standards. They have already been implemented by the private sector and the NHS.

**46** The Council is required to prepare financial statements based on IFRS for 2010/11. The transition to IFRS is challenging. The financial impact will vary widely from one body to another but the broader implications are wide reaching. IFRS is not just a technical accounting issue for the finance team as there are wider process and systems changes to consider across the organisation. Considerable preparatory work is essential.

**47** The Council has recognised the challenges posed by IFRS. Members have been kept informed of the key changes following the introduction of IFRS. A project plan has been drawn up and the Council is currently on track to meet key milestones. I will continue to discuss with the Council emerging issues and preparatory work for the transition.

## Closing remarks

**48** I have discussed and agreed this letter with the Chief Finance Officer. I will present this letter at the Audit Committee on 3 February 2011 and will provide copies to all board members and to Cabinet in December 2010.

**49** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Letter	3 April 2009
Audit Opinion Plan	8 April 2010
Annual Governance Report	30 September 2010

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**50** The Council has taken a positive and helpful approach to our audit. I wish to thank the Borough of Poole staff for their support and cooperation during the audit.

Simon Garlick  
District Auditor  
November 2010

## Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	150,760	150,760	0
Value for money	64,000	64,000	0
<b>Total audit fees</b>	<b>214,760</b>	<b>214,760</b>	
Non-audit work	3,240	3240	0
<b>Total</b>	<b>218,000</b>	<b>218,000</b>	<b>0</b>

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## Appendix 2 Glossary

### **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131  
Fax: 0844 798 2945  
Textphone (minicom): 0844 798 2946