

# Annual Audit Letter

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**Barrow-in-Furness Borough Council**

**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 letter summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 10).**

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

## **Audit opinion and financial statements**

**1** I issued my audit report including an unqualified opinion on the financial statements on 30 September 2010.

**2** The Council prepared, approved and submitted the financial statements for audit on time. I received a full set of financial statements and supporting working papers under the timetable agreed with officers.

## **Value for money**

**3** I identified significant weaknesses in the Council's arrangements for procurement, tendering and contracting. These weaknesses suggest poor governance arrangements for tendering and contracting, and expose the Council to potentially significant risks, including the risk the Council may not be able to show that its tendering and procurement processes are compliant with all laws and regulations.

**4** I issued a qualified Value for Money conclusion on 30 September 2010, stating that, in all significant respects, Barrow-in-Furness Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010 except for promoting and demonstrating the principles and values of good governance.

## **Current and future challenges**

**5** In common with all public organisations, and particularly Local Government, the Council faces significant financial challenges in 2010/11 and over the following four years.

6 The economic downturn has put significant pressures on public spending. The abolition of the North-West Development Agency (NWDA) may reduce funding for regeneration schemes in Barrow. The recent Spending Review announced funding cuts for Local Government that will place the Council under unprecedented financial pressures.

# 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 2010.**

## **Overall conclusion from the audit**

**7** I issued an audit report including an unqualified opinion on the financial statements on 30 September 2010.

**8** The Council prepared, approved and submitted the financial statements for audit on time. I received a full set of financial statements and supporting working papers under the timetable agreed with officers

**9** My Annual Governance Report, presented to the Audit Committee on 29 September 2010, identified the Council could improve the explanatory foreword to the accounts to ensure that this covers all the recommended areas. The Statement of Recommended Practice (SORP) provides guidance on the content of the explanatory foreword. The SORP recommends the explanatory foreword fulfils a similar purpose to the directors' report in company accounts and should provide a guide to the most significant aspects of financial performance and year-end position.

**10** I also recommended that the accounts should disclose the specific purposes of the earmarked reserves and what the Council intends to fund from the reserves. The SORP provides guidance on the content of the notes to the accounts. This guidance states that Councils earmark reserves for specific policy purposes and for each reserve set up, the accounts should disclose the purpose and use of the reserve.

## Annual Governance Statement

**11** The purpose of the Council's Annual Governance Statement (AGS) is to provide an accurate representation of the Council's governance arrangements in place during the year and to highlight those areas where improvement is required.

**12** The AGS is a key corporate document. The most senior officer and the most senior member have joint responsibility as signatories for its accuracy and completeness. As a corporate document, all Council Members and senior officers should own the Annual Governance Statement. The CIPFA Guidance for Practitioners includes detailed guidance and recommended practice to prepare the AGS.

**13** My review of the Council's AGS for 2009/10 identified weaknesses, including:

- no clear evidence gathering process to support the assurances made in the AGS;
- no formal review and consideration of the AGS by the Executive or Audit Committee before approval;
- the AGS does not include any of the significant weaknesses identified by Internal Audit during the year; and
- the AGS does not include a prioritised action plan setting out the actions required to address significant weaknesses.

## Significant weaknesses in internal control

**14** I did not identify any significant weaknesses in the design or operation of internal controls that might result in a material error in your financial statements.

**15** I identified significant weaknesses in the Council's arrangements for procurement, tendering and contracting. My findings in respect of procurement, tendering and contracting are set out in the Value for Money section of this report.

## Implementation of International Financial Reporting Standards (IFRS)

**16** The Council will prepare its 2010/11 accounts under new International Financial Reporting Standards (IFRS). Early preparations for this change began in 2009 however staffing pressures during 2010 have meant the Council is not as well prepared as other similar Councils.

**17** The Council needs to speed up preparations for IFRS. In particular, the Council should restate the financial position at 1 April 2009 and restate the 2009/10 accounts as soon as possible. A project plan and progress reports should also be reported to the Audit Committee.

# 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

**18** 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 end with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**19** 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.

**20** I report the significant findings from the work I have carried out to support the vfm conclusion.

## VFM conclusion

**21** 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 audited body.

**22** I identified significant weaknesses in the Council's arrangements for procurement, tendering and contracting

**23** I issued a qualified Value for Money conclusion on 30 September 2010, stating that, in all significant respects, Barrow-in-Furness Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010 except for promoting and demonstrating the principles and values of good governance.

24 Table 1 below provides a summary of my findings.

Table 1: **Value for Money Assessment**

Value for Money Criteria	Adequate arrangements?
<b>Managing finances</b>	
Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes
Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes
Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes
<b>Governing the business</b>	
Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes
Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	Yes
Does the organisation promote and demonstrate the principles and values of good governance?	No
Does the organisation manage its risks and maintain a sound system of internal control?	Yes
<b>Managing resources</b>	
Is the organisation making effective use of natural resources?	Yes

### **Managing Finances**

25 The Council has financial arrangements in place to support delivery of strategic objectives. Budgetary control is strong and contributes to a good financial control environment at the Council. The Council has a general fund balance of £2.3 million at 31 March 2010 and this is forecast to reduce to £2.1 million at the end of 2010/11.

**26** The current financial strategy considers the impact of the economic downturn and this is now being updated to reflect the implications of the Spending Review. The Council has achieved its efficiency target in each of the last three years.

### **Governing the Business**

**27** Recent procurement of new contracts for grounds maintenance, waste collection and street cleansing are expected to realise savings in excess of £1.2 million in 2010/11. However I have identified that significant weaknesses exist in your procurement, tendering and contracting arrangements as set out in the next section of this letter.

**28** The Council's corporate aims and priorities are based on a detailed understanding of the needs of residents collected through statutory surveys, additional tracker surveys and focus groups. It is willing and able to respond to the needs of local people, and acts on resident feedback to deliver improvements.

**29** The Council has adequate arrangements in place to oversee data quality and has procedures in place to collect and analyse data from services and activities. Action plans are used for performance management and under-performance results in officers being invited to attend scrutiny committees to provide explanations. This focus on under performance is helping to drive up service performance in priority areas.

**30** An ethical framework is in place to promote good governance but the Council must improve governance of tendering and contracting to ensure the Council's arrangements meet relevant contract laws and regulations. A counter fraud strategy and whistle blowing policy are accessible on the Council's website. The Council has an audit committee although this needs to provide more challenge. The Council monitors risks and a corporate risk register is in place.

### **Managing Resources**

**31** The Council has a well established approach for reducing the environmental impact of its activities. It is delivering significant savings through energy efficiency measures in its buildings.

**32** The Council is working with the carbon trust to improve energy efficiency, for example, by installing power saving technology into buildings it leases out. It has also been successful in obtaining grants from the Low Carbon Buildings Fund for installing solar thermal panels on Park Leisure Centre. It is working with other councils to develop a framework for construction contracts to ensure environmental impacts are considered.

## Tendering and contracting

**33** The Council has been successful in securing efficiency savings from large procurement exercises, however significant weaknesses exist in your procurement, tendering and contracting arrangements. These weaknesses suggest poor governance arrangements for tendering and contracting, and expose the Council to potentially significant risks.

**34** I have undertaken significant extra work during 2009/10 to consider weaknesses and concerns about your procurement, tendering and contracting arrangements. These weaknesses have been identified over some years but the Council has not yet taken enough action to address these weaknesses.

**35** The Council's Contract Standing Orders (SOs) are out-of-date and do not reflect all current procurement practices in the Council, such as e-procurement. As a result the Council is not always following SOs, although these are now being revised and updated. The Council also does not have an up-to-date procurement policy, and as a result Council policy may not reflect good practice and new requirements, such as changes to EU procurement regulations. There is a risk that the Council cannot show that all contracts have been tendered and awarded in accordance with Council policy and procedure. As a result the Council may not comply with contract laws and regulations.

**36** Our audit work identified that tender exercises have taken place and work is underway, but there is no contract recorded in the contracts register. Sometimes this is because legal services have not been provided with a copy of the contract and in other cases, work has been completed before the contract has been agreed and signed. Sometimes work has been completed without a contract. The absence of a formal contract before work begins increases the risk that work is not completed as required by the Council.

**37** The Council only requires formal tendering for contracts with a value over £100,000. This threshold is high in comparison to districts of a similar size and many larger Councils have tendering thresholds that are much lower than this. There is risk the Council cannot show that it is obtaining value for money where contracts are awarded below £100,000 without being tendered.

**38** Internal Audit have undertaken work on both the Council's procurement and contracting processes, and reviews of specific contracts. The Internal Audit reports related to this work identify common and recurrent issues, including the following.

- Tenders are not always opened in accordance with Standing Orders. There are examples of incomplete signatures on documentation at tender opening and missing tender documentation.
- Examples of work being awarded under standard 'terms and conditions' of business with the Council, but without a formal contract in place; increasing the risk of dispute between the Council and Contractor.

- Tenders being invited from contractors that are not on the approved list.
- Contract variation orders are not always complete or properly authorised and there are examples of inappropriate authorisation of contract invoices for payment.
- Lack of supporting documentation to support the appointment of a consultant.

## Recommendation

- R1** The Council must take urgent action to address the weaknesses identified in tendering and contracting arrangements.
- Keep Standing Financial Regulations and Contract Standing Orders up-to-date with all contract law and regulations.
  - Ensure that all procurement practices in the Council are compliant with these regulations.
  - Keep procurement policy up to date and apply it consistently across the Council.
  - Put contracts in place for all tender exercises before work or services commence.
  - Keep the contracts register complete and accurate.
  - Review tendering thresholds to ensure that the Council is satisfied that the thresholds are appropriate.
  - Complete all tender exercises in accordance with standing orders.

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

**39** 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.

**40** My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on ensuring that the Council has proper arrangements in place to:

- secure financial resilience; and
- challenge how it secures economy, efficiency and effectiveness

**41** 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.

## National Fraud Initiative (NFI)

**42** The National Fraud Initiative (NFI) is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants, and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in February 2009.

**43** The Council has made effective use of the NFI database to identify and review data matches. In particular the Council has identified potential savings in Housing Benefits of £42,000 and potential savings in Housing of £97,000.

# Current and future challenges

## Current and future challenges

**44** In common with all public organisations, and particularly Local Government, the Council faces significant financial challenges in 2010/11 and over the next few years. The economic downturn has put pressures on public spending and the recent Spending Review announced funding cuts for Local Government of some 7 per cent a year over the period 2011 to 2015.

**45** The funding cuts in Local Government will place the Council under unprecedented financial pressures. The Council has successfully secured efficiency savings in excess of £1.2 million through procurement of grounds maintenance, waste collection and street cleansing in 2009/10 and 2010/11 but the scale of savings now required since the Spending Review is significant and challenging.

**46** Funding cuts mean the Council will face some tough decisions about how it pursues its vision to improve the economic and social future of the borough. Identifying savings and efficiencies may require fundamental changes to how services are delivered and options such as shared services will need to be explored.

**47** The Spending Review included significant cuts to Capital funding and the abolition of the North-West Development Agency (NWDA) may also reduce funding for regeneration schemes in Barrow. The Council will need to seek alternative funding arrangements and partnerships if it is to continue the regeneration and investment vision for Barrow.

## Closing remarks

**48** I have discussed and agreed this letter with the Chief Executive and the Borough Treasurer. I will present this letter at the Audit Committee on 14 December 2010 and will provide copies to all Members.

**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 Opinion Plan	March 2010
Annual Governance Report	September 2010
Opinion on the Financial Statements	September 2010
Value for Money Conclusion	September 2010
Assurance Statement on the Whole of Government Accounts return	October 2010
Annual Audit Letter	November 2010

## The Audit Commission

**50** The Secretary of State for Communities and Local Government has announced the proposed abolition of the Audit Commission and the transfer of its audit practice to the private sector. This will be from 2012/13 at the earliest and is subject to legislation.

**51** Our priority is to ensure our professional standards and commitment will be maintained. You will see no deterioration in customer service and audit quality.

**52** We are working to develop an independent audit practice to continue beyond the abolition of the Audit Commission, including the option of a potential mutualisation or buy-out. Whatever model we adopt, we will remain committed to providing excellent service to our existing clients.

## Concluding Comments

53 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Gina Martlew  
Appointed Auditor

November 2010

## Appendix 1 Audit fees for 2009/10

	Actual	Original planned	Variance
Financial statements and annual governance statement	£68,071	£68,071	£0
Value for money	£44,509	£44,509	£0
Tendering and Contracting	£23,000	£0	£23,000
<b>Total audit fees</b>	<b>£135,580</b>	<b>£112,580</b>	<b>£23,000</b>

I have undertaken significant extra work during the 2009/10 audit to consider weaknesses and concerns about your tendering and contracting arrangements. My planned audit fee did not include this work and therefore I need to charge additional fee of 23,000.

## 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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