

# Annual Audit Letter

Ashfield District Council

Audit 2008-2009

December 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.
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# Key messages

**This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

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- 1** You can take assurance from the fact that I have been able to give an unqualified opinion on the financial statements. However, it wasn't possible to complete our work before the deadline of the end of September because we identified a lot of errors in the draft statements which had to be changed. We have identified many ways in which the quality of the statements need to be improved and will be looking to see improvement next year. Because of the scale of the problems with the financial statements I have included a statutory recommendation in this letter which requires a public response from the Council.
- 2** I gave a part qualified value for money conclusion because you do not have adequate processes in place to prepare your financial statements or to manage your staff effectively. However, you are a low spending Council and have a history of keeping to your budget and saving money when you need to. You now have some very difficult decisions to make because you need to reduce spending a lot over the next few years. We are concerned that you have not yet worked out how you will do this without affecting services. You therefore need to make better plans for the coming years about what you need to spend and how to get better value. You also need to identify how you will make savings to stay within budget.
- 3** Our assessment of you as an organisation is that you are performing poorly overall. You are not tackling all of the things that are most important to local people. People in Ashfield are unhappy with their area and do not have a good sense of community. They are very concerned about important things that affect their lives, like crime and antisocial behaviour, and how clean the area is, and do not think you have been helping enough to tackle these problems.
- 4** Some things in Ashfield are improving, like making sure people get access to good homes that they can afford. The streets are getting cleaner. But some important services are not good enough in Ashfield – such as the benefits service. And there are too many problems for people in Ashfield that you need to help improve. At the moment you do not have sufficient leadership capacity or good enough plans to improve these things.
- 5** We made reference in our 2007/08 letter to the need to stabilise your senior management team and you have recently appointed a permanent Chief Executive. However, progress has been hampered by the absence of a Deputy Chief Executive whilst his complaint against you was resolved.

- 6 Leadership, however, is not just the responsibility of officers but should come from the Council working with each other, with officers and with other bodies. It is clear that Councillors do not always work effectively with the Council's senior managers or behave in a way that gives local people confidence and portrays an image of an effective council.
- 7 Recommendations are shown within the body of this report and have been agreed with officers apart from our statutory recommendation which must be considered and responded to by the Council within one month of the issue of this letter. It has been agreed that this will be considered at the 19 January Council meeting.

# 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.**

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## Significant issues arising from the audit

- 8** I issued an audit report including an unqualified opinion on the financial statements on 16 December 2009. I was unable to issue my opinion on your financial statements by the deadline of 30 September 2009 because of the extent of unresolved issues at that time, particularly in relation to fixed asset values. In fact we had to withdraw from the audit to allow your officers more time to respond to our outstanding queries, recommencing on 19 October.
- 9** In the 2010/11 local government work programme and scale of fees consultation document, published in July 2009, the Audit Commission commented that the failure to publish accounts on a timely basis, or the qualification of an auditor's opinion on a set of accounts, not only reflects poorly on authorities' financial management arrangements, but represents a fundamental failure of governance.
- 10** In response to this issue, the Commission committed to publishing, in an open letter to the Secretary of State, a list of all those authorities whose accounts have been qualified, or where the auditors have not been able to issue their reports by 30 November. You were included on this list when the letter was issued on 17 December.
- 11** On a more positive note, following last year's qualified opinion because of concerns over your cash and bank balances I have been able to obtain sufficient assurance over your bank reconciliation to enable me to give an unqualified opinion this year. The bank reconciliation is a key internal control and it is essential that full reconciliations are now undertaken each month.

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## Financial statements

- 12** The draft financial statements contained a large number of material and non-trivial errors, all but one of which have been amended. Our annual governance report which was presented to the Audit Committee on 15 December provides a comprehensive explanation of the details along with recommendations to help address the specific problems identified.

- 13** There are ongoing issues of capacity in the financial management division which, despite officers' best efforts, contributed to the number of errors in the draft accounts and issues around the resolution of audit queries. In our 2007/08 annual audit and inspection letter issued in March we commented that the Interim Head of Financial Management had been tasked with delivering a significant programme of improvement work within financial services. We went on to recognise the progress already made around the medium term financial plan and improvements in underlying financial procedures including the bank reconciliation. The next stage being to deliver improved arrangements for the production of the 2008/09 accounts. For various reasons this improvement did not materialise and action now needs to be taken to ensure that this improvement is delivered in 2009/10.
- 14** Although we have been able to give an unqualified opinion on the financial statements for 2008/09, we remain concerned over the accounting entries in respect of many aspects of fixed assets and capital accounting. As we set out in our annual governance report whilst we are satisfied that the figures within the financial statements are materially correct there are a number of unresolved issues. Action must be taken to address these issues in the current year.
- 15** Taking together:
- the lack of progress in improving the arrangements for the production of the 2008/09 accounts;
  - the scale of the material errors identified;
  - the consequential delay in the audit opinion; and
  - the unresolved issues around fixed assets and capital accounting;

I consider it necessary to make a statutory recommendation under S11(3) of the Audit Commission Act.

### **S11 (3) Recommendation**

- R1** The Council must improve the quality of the draft financial statements to enable statutory preparation and audit deadlines to be met by ensuring that:
- the financial management division is sufficiently resourced;
  - arrangements are put in place to ensure that the fixed asset register is fit for purposes in terms of current and emerging financial reporting requirements and is up to date; and
  - action is taken to ensure that all capital accounting entries are fully supported and reconcile back to the fixed asset register.

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# Value for money and use of resources

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

I also assessed 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.

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## Use of resources judgements

- 16** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest.
- 17** 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.
- 18** The Council's use of resources theme scores are shown in Table 1 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

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**Table 1** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	1

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- 19** Overall, the Council is performing adequately against most of the new use of resources criteria and has arrangements which are generally consistent with established professional practice and guidance, meet statutory requirements and operate effectively. The Council's performance is inadequate in two key areas financial reporting and workforce planning. The issues around financial reporting have already been referred to under the financial statements section.

- 20** The Council also needs to get better at workforce planning. This is needed so that the Council has a strong and stable team of senior managers to help give the leadership that is needed, and the right staff in the right places to give a better level of service to the people in Ashfield.
- 21** In order to move to the next level, the Council needs to show improvements in the two areas identified above and demonstrate that overall, arrangements are not only effective but are having the intended impact in terms of outcomes and the delivery of strategic priorities.

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### VFM Conclusion

- 22** 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 1.
- 23** I issued a qualified conclusion stating that the Council had adequate arrangements to secure economy efficiency and effectiveness in the use of resources, except that it did not put in place adequate arrangements for:
- producing timely, reliable financial reporting that meets the needs of internal users, stakeholders and local people; and
  - planning, organising and developing the workforce effectively to support the achievement of strategic objectives.

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### Financial standing

- 24** The last year has seen the country enter a significant economic recession. The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 25** The latest forecasts for current year which were reported to Cabinet in November show that the Council is anticipating an overall deficit of £1.5m which will have to be met from general reserves. Looking further ahead the Medium Term Financial Strategy highlights an increasing annual deficit of £1.9m in 2010/11 rising to £4.4m in 2014/15 if existing policies continue.
- 26** With a predicted general reserve balance of £4.8m at the end of 2009/10 without action deficit levels as per the strategy would see the general reserve all but exhausted in two years. This is clearly unsustainable.

## Value for money and use of resources

- 27** The medium term strategy goes on to set out recurrent 'savings to be identified' of around £1m each year which would reduce the projected deficit. However, although the Council has established a process for identifying savings, specific savings have yet to be identified. Members have set the minimum level for the general reserve at £2.5m, but the significant savings which need to be identified to achieve this, places this strategy at risk.
- 28** The financial position of the Council therefore remains challenging. The Council will need to ensure that it continues to monitor closely its financial position and takes appropriate action to enable it to remain within its budget. I will continue to monitor the Council's response and actions in this key area.

### Recommendation

**R2** The Council needs to continue to monitor closely its financial position and to take appropriate action to enable it to remain within its budget. In particular, it must identify specific sources for the savings required.

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## Senior management arrangements

- 29** In the 2007/08 annual audit and inspection letter issued in March 2009 we commented on the extent of temporary cover arrangements in place since October 2008 and recommended that the Council bring to a managed end the acting and interim arrangements for key management posts.
- 30** The interim Chief Executive was made permanent in October and in November the decision was taken to appoint a permanent Deputy Chief Executive (Resources). This post will be advertised in early January 2010 making it unlikely that anyone will be in post before May 2010. In January, the Council will also consider options for a permanent solution for the monitoring officer role which is temporarily being filled by the Corporate Manager of Legal and Democratic Services.
- 31** Earlier resolution of the level of acting and interim arrangements was hampered since April 2009 by the absence of one of the Deputy Chief Executives following his complaint against the Council. He has now left the Council's employment and we will review the detailed circumstances around this as part of our 2009/10 audit.
- 32** Given the challenges facing the Council to deliver improved services in an environment of tightening financial resources urgent action is required to create a stable management team with sufficient capacity.

### Recommendation

**R3** The Council needs to conclude its action to stabilise the senior management team and ensure it has sufficient capacity to deliver Council objectives and respond to the challenges that it faces.

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# Organisational assessment

The Comprehensive Area Assessment Lead has used my use of resources assessment along with an assessment of how well the Council manages its performance to come to an overall assessment for the Council. This is known as the organisational assessment.

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## Managing Performance

- 33** The Audit Commission assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to local people.
- 34** The Council scores 1 out of 4 for managing performance. People in Ashfield are less happy with the area as a place to live than almost any other district in the country. They are not satisfied with how the Council runs things. The Council has paid insufficient attention to this. Crime is high and until very recently was still rising, and the Council has not put enough effort into helping to improve this. People in Ashfield get a poor benefits service. A lot of people claim housing and council tax benefits, especially as the recession has hit, but it takes a long time to be paid and this might mean hardship for vulnerable people.
- 35** Some vulnerable people, like those who are homeless, get a better deal. But the Council doesn't make sure all local people do and it needs to do more to encourage different communities to get along together. It doesn't always work effectively with other public services to make sure that joint problems improve.
- 36** The Council doesn't have enough leadership to improve things yet. There are a number of senior vacancies, and senior managers have been very stretched for some time. Councillors do not always work effectively with the Council's senior managers, or behave in a way that gives local people confidence or gives a good image. The number of complaints investigated about councillors is one of the highest in the country. There are a lot of staff vacancies and in some areas there have not been enough staff to provide a good level of service. Staff sickness went up a lot last year. Although it has been coming down recently, in some parts of the Council, not having enough staff available affects the quality of service that people get.

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## Overall Organisational Assessment

- 37** The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that because of the seriousness of the issues identified by the managing performance assessment the organisational assessment judgement for the Council is that it performs poorly.

## Organisational assessment

- 38** The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment for Nottinghamshire, Stephen Barnett.
- 39** In response to the issues highlighted by the organisational assessment the Council is currently in discussions with the Government Office East Midlands, Improvement and Development Agency and Nottinghamshire Improvement and Efficiency Partnership (NIEP) about what support and assistance might be available. As part of this it has established a voluntary improvement board which will meet for the first time in January.

# Closing remarks

- 40** I have discussed and agreed this letter with the Chief Executive and Interim Head of Financial Management and Audit Services, I will present this letter at the Audit Committee on [date] 2010 and will provide copies to all members before the end of December 2009.
- 41** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

**Table 2**

Report	Date issued
Annual audit and inspection plan	May 2008
Review of Internal Audit	March 2009
Opinion audit plan	March 2009
Review of Nottinghamshire LAA	June 2009
Annual governance report (including use of resources assessment)	December 2009
Auditor's report giving an opinion on the financial statements	December 2009
Value for money conclusion	December 2009
Organisational Assessment	December 2009

## Audit fees

- 42** We were unable to deliver the audit within the fee agreed at the start of the year because of the additional work required to conclude the audit of the financial statements. An additional invoice has been raised to cover the work and the full effect is summarised below.

**Table 3     Audit fees**

	Actual	Proposed	Variance
Financial statements and annual governance statement	108,276	92,976	15,300
Value for money	25,294	25,294	0
<b>Total audit fees</b>	<b>133,570</b>	<b>118,270</b>	<b>15,300</b>

## Closing remarks

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### Independence

**43** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Sue Sunderland

District Auditor

December 2009

# Appendix 1 – Use of resources key findings and conclusions

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

**Table 4 Managing finances**

<b>Theme score</b>	<b>2</b>
Key findings and conclusions	
The Council has adequate arrangements overall for managing its finances but need to improve its performance in financial reporting.	
<b>KLOE 1.1 (financial planning)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
The MTFS is weak in terms of its linkages to other key strategies and plans. Integration of financial planning with service planning is adequate. The budget for 2009-10 requires significant savings and this approach is unsustainable in the medium term. The Council has a general knowledge of communities and needs but there is little evident impact of this on high level financial plans, and no specific engagement of communities in financial planning. There are capacity weaknesses in the financial services function which are being addressed. There is some progress in developing financial awareness and skills in councillors, but little in relevant non-finance staff.	

## Appendix 1 – Use of resources key findings and conclusions

<p><b>KLOE 1.2 (understanding costs and achieving efficiencies)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The Council is developing a process to build up and analyse cost information across all services, and has some understanding of unit costs mainly in priority areas. It does not link this to performance to inform VFM decisions on a routine basis. There is no evidence of understanding partnership resources. Performance information is reasonable, but not well linked to costs. The Council needs to further develop project appraisals, business plans and affordability tests for new policy and capital developments. The Council's services are generally low cost but patchy performance means they are not consistently good or improving value. There are very challenging efficiency/savings targets for the next 3 years.</p>	
<p><b>KLOE 1.3 (financial reporting)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>1</b></p> <p><b>No</b></p>
<p>Key findings and conclusions</p>	
<p>Budget monitoring is not related to operational activity indicators or informed by risk assessment and there is no evidence of financial training being provided. The Council has self assessed as not meeting the basic level as regards producing relevant, timely and reliable financial monitoring and forecasting information. The Council does not consider financial information alongside performance objectives with links to strategic objectives linked to an integrated approach to gathering financial and non financial performance data. The number of matters arising during the audit of the 2008-09 accounts resulted in a late opinion being delivered and there were a number of material changes made. Summary accounts have not been published since 2005/06, and there is no evidence supporting consultation with residents when determining requirements of this information.</p>	

**Table 5    Governing the business**

<b>Theme score</b>	<b>2</b>
Key findings and conclusions	
The Council has adequate arrangements for governing the business.	
<b>KLOE 2.1 (commissioning and procurement)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<p>The Council's understanding of local needs and issues is good and does influence corporate and service planning. There are clear examples of significant procurement/commissioning to deliver on priorities (eg Lammas LC), but not a strong strategic approach. The Council engages with stakeholders generally although with limited targeting other than geographical areas. The Council is improving access and the customer experience.</p> <p>VFM improvements are likely, though not well evidenced and overall VFM is not improving because performance improvement is inconsistent and some key service areas, such as benefits, are deteriorating. The Council has relied on the Nottinghamshire Procurement Forum and to a lesser extent ESPO for knowledge of the local supply market for procuring goods and services. There are clear, 'managed' relationships with significant partners. The Council has some understanding of unit costs in many, mainly priority areas.</p>	

## Appendix 1 – Use of resources key findings and conclusions

<p><b>KLOE 2.2 (data quality and use of information)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The Council's approach for data quality (DQ) is well-defined in the DQ policy/strategy/action plan. The DQ framework is monitored. There is a routine internal programme of data quality audit. However, spot checks have shown that the framework is not always applied consistently because data is not always accurate.</p> <p>The Performance IT system is effective. Information is generally fit for purpose, especially for key decisions. Financial systems are not currently linked, undermining integration of cost and performance data, although work is underway on this. There are a comprehensive range of policies and protocols in place. There is a well-established performance management framework in place with systematic monitoring and challenge, and use of action plans.</p>	
<p><b>KLOE 2.3 (good governance)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The Council constitution is updated regularly and the Chief Executive and Senior Officer roles and responsibilities are included within the scheme of delegation. There are member training and development schedules for members via Personal Development Plans. The Council has demonstrated engagement through a record of 'focus group' meetings to discuss corporate objectives. A corporate governance code has been adopted by the Council providing an ethical framework for the organisation. The Standards Committee has considered a disproportionately high number of complaints. A Whistleblowing Policy, Staff Code of Conduct, Standing Orders and Financial Regulations are contained within the Constitution. There are governance agreements in place for some key partners but a formal review of partnership working is required.</p>	

<p><b>KLOE 2.4 (risk management and internal control)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>A risk strategy and corporate risk register is in place but this is not linked directly to strategic objectives. Partnership risks are not considered within the corporate risk document. Risk management training has not been provided for all. The Council's counter fraud and corruption policy was refreshed in April 2009 but there is no evidence to demonstrate how its impact is monitored. The Council has previously participated well in NFI. The Council has successfully actioned prosecution of housing benefit fraudsters. An Audit Committee is in place delivering the required core functions. The Council provides effective internal audit in accordance with relevant requirements.</p>	

## Appendix 1 – Use of resources key findings and conclusions

**Table 6 Managing resources**

<b>Theme score</b>	<b>1</b>
<b>KLOE 3.3 (workforce planning)</b>	
<b>Score</b>	<b>1</b>
<b>VFM criterion met</b>	<b>No</b>
Key findings and conclusions	
<p>The Council is currently undertaking a skills audit. There is extensive use of interim arrangements at senior level. Individual performance management is systematic, with regular review, but no clear evidence that development needs are met.</p> <p>The Council has not made the intended progress in improving its longer-term workforce planning. The workforce plan 2009-14 is at an early draft stage, and so is not integrated with strategic planning, and the skills audit, workforce profile and other information on which it is currently based is incomplete.</p> <p>Communication and engagement about significant change is reasonable. Unions and representative groups are effectively consulted. The Council has not evidenced recent use of staff feedback, or less recent staff surveys/views, so cannot evidence that it monitors morale, or judge effectiveness of engagement and staff satisfaction with communications.</p> <p>Basic people management policies are in place. There has been limited improvement in Equality Standard LG from 1 to 2, and the Council currently meets only basic legislative requirements and training standards for diversity and equality. There is no evidence that the workforce is representative or details of the action the Council is taking to improve this.</p>	

# Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Audit Letter 2008/09 Recommendations</b>						
6	<p><b>S11 (3) Recommendation</b></p> <p>The Council must improve the quality of the draft financial statements to enable statutory preparation and audit deadlines to be met by ensuring that:</p> <ul style="list-style-type: none"> <li>the financial management division is sufficiently resourced;</li> <li>arrangements are put in place to ensure that the fixed asset register is fit for purposes in terms of current and emerging financial reporting requirements and is up to date; and</li> <li>action is taken to ensure that all capital accounting entries are fully supported and reconcile back to the fixed asset register.</li> </ul>	3	Full Council			

## Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	The Council needs to continue to monitor closely its financial position and to take appropriate action to enable it to remain within its budget. In particular, it must identify specific sources for the savings required.	3	Interim Head of Financial Management	Yes		
9	The Council needs to conclude its action to stabilise the senior management team and ensure it has sufficient capacity to deliver Council objectives and respond to the challenges that it faces.	3	Chief Executive	Yes		

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# The Audit Commission

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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