

Annual Audit Letter

Bassetlaw District Council

Audit 2008/09

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. It also includes a summary of the Audit Commission's organisational assessment of the Council.

Audit Opinion

- 1 I reported to the Council in September a delay in the completion of my audit. After resolving satisfactorily the outstanding issues regarding the accounting treatment of capital expenditure on Council Houses and the valuation of your leisure centres, I gave an unqualified opinion on your financial statements on 30 November 2009.
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Financial Statements

- 2 Whilst the draft financial statements were produced by your target date, they contained several errors. Better quality control procedures, applied prior to the presentation of the statements for audit, would have identified many of these errors. Further work is also needed by the Council to ensure working papers provided are accurate and complete to support the content of the accounts presented for audit. Officers are committed to improved arrangements for 2009/10 and already have plans in place.
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Value for money and Use of Resources

- 3 I have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009. I issued an unqualified VFM conclusion.
 - 4 Our work on the new Use of Resources assessment has directly informed the VFM conclusion and confirms that the Council has satisfactory arrangements overall for its use of resources, scoring 2 out of 4. It performs well in the area of workforce planning.
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Organisational assessment

- 5 The Audit Commission also 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.
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- 6 Overall Bassetlaw District Council performs adequately, scoring 2 out of 4. Bassetlaw's priorities match many of the concerns of local people. People are concerned about teenagers and young people, crime and the environment. The Council is making progress in improving these areas through additional investment. However progress is not always as quick as it should be. While some environment areas such as street cleansing have improved well, others – such as recycling have not. Some aspects of community safety have improved, such as reductions in numbers of violent or vehicle crimes, but others such as numbers of burglaries have not.

Financial Standing

- 7 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.
- 8 You are alert to both national and local issues as they affect the Council's finances and have recently reviewed and updated your medium term financial plan. Having already achieved significant savings in recent years, you are reporting no immediate significant financial pressures, but future years' plans will require further savings to be achieved.
- 9 As I reported in my last Letter in March 2009, the Council had £8 million invested in the failed Icelandic Banks. You have recently reviewed and updated your treasury management strategy. Also, following national guidance, you reported a £2.17 million impairment of your Icelandic investments in the 2008/09 accounts. Some repayments of principal have already been made by the affected banks and you continue to assess your options for dealing with the impairment.
- 10 The impacts of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area.

Audit Fees

- 11 Whilst we have delivered most of our audit within the agreed fee (as set out in our 2008/09 Audit Plan), the audit of the financial statements has required significant additional work than originally planned and attracted extra audit fees. I have set out in the table below the final costs for this year's audit.

Key messages

Table 1 Audit fees

	Actual £	Proposed £	Variance £
Financial statements and annual governance statement	106,818	93,475	13,343
Value for money	30,335	30,335	
Total audit fee	137,153	123,810	13,343

Actions

- 12** No recommendations have been raised in this Letter and none was made last year. Nevertheless, I will be reviewing progress in 2009/10 in the following two areas.
- Action against the four recommendations agreed within my Annual Governance Report 2008/09 (see pages 6 to 8).
 - Financial health of the Council going forward in light of the economic downturn (see pages 10 and 11).

Independence

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

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.

Significant issues arising from the audit

- 14** I gave an unqualified audit opinion on your financial statements and an unqualified value for money conclusion on 30 November 2009.
- 15** During the course of my audit I found a substantial number of material and significant errors in the financial statements and these were reported to management. The accounts were amended for each of these items with the exception of one issue detailed below. In relation to the amended entries I draw to your attention below to those issues which I consider are of greatest importance. The first two items were referred to in my letter to the Council dated 24 September which explained the principal reason for the delay to my opinion.

Valuation of Council Dwellings including enhancement expenditure

- 16** In the Council's draft accounts council dwellings were shown at a closing value of £297.7 million. Within this balance was enhancement expenditure on dwellings, largely relating to the Council's decent homes programme, of £25.4 million which the Council had allocated to individual dwellings. For each dwelling the enhancement expenditure had been treated as a separate 'component' which the Council was depreciating over 10 years. The 'components' relate to, for example, new kitchens and bathrooms.
- 17** Following discussions with Council officers, the Council has now added the enhancement expenditure to each dwelling and written out the value of the replaced components. It has also adjusted the depreciation charge to bring it into line with the approach to depreciating the dwellings themselves.
- 18** The net effect of the change is a reduction in the net book value of Council dwellings of £1 million and a decrease of £0.8 million in the depreciation charge.

Valuation of leisure centres

- 19** The Council included in its draft accounts two leisure centres at a value of £10.5 million. The value was based on the construction costs and the capital payments made by the Council less depreciation. There had been no year end assessment as to whether this valuation was still appropriate.
- 20** The Council's Valuer re-valued the two leisure centres. As a result their carrying value increased by £205,000.

Financial statements and annual governance statement

21 However, we noted during the course of the audit that the Council has yet to complete and finalise with the County Council the lease agreements associated with its management and use of these assets. Clearly, given the significance of its investment, the Council should pursue the completion of these agreements. I agreed a recommendation as part of the Annual Governance Report to resolve this issue and will monitor progress as part of my 2009/10 audit.

Impairment of Icelandic Banks' investment

22 Subsequent to the production of the Council's draft accounts, further guidance was received on the calculation of impairment in respect of the Council's investments in Icelandic Banks. As a result the impairment charge was increased by £205,000 to £2.17 million.

General Fund balance and Housing Revenue Account (HRA) balance

23 As a result of the audit the HRA balance increased by £118,000 to £1.33 million. The error arose in the calculation of loan interest attributable to the HRA.

24 The General Fund balance was reduced by £89,000 to £2.38 million as a result of the audit. The net reduction reflects the £118,000 above which is an extra charge to the General Fund less a reduction of £29,000 in the calculation of the minimum revenue provision.

Unadjusted misstatement

25 There was one error in the financial statements 2008/09 that was not amended. This was in relation to the classification of community assets worth £168,000. I received a specific representation from the Council explaining that no amendment was made on the basis of it being immaterial in officers' judgement.

Material weaknesses in internal control

26 I did not identify any significant weaknesses in your internal control arrangements for the 2008/09 period.

27 However, during my audit of the financial statements, I noted that reconciliation of the Council's bank accounts had not been undertaken in the first six months of 2009/10. Such reconciliations are an important control to ensure that cash transactions are processed completely and in a timely manner and also to prevent and detect fraudulent activity. A new member of the Finance team was appointed in September 2009 to undertake these reconciliations. I understand that the issue is now being addressed and make no recommendation at this stage, but it will be followed up as part of my 2009/10 audit.

Accounting Practice and financial reporting

28 I have considered the qualitative aspects of your financial reporting and Table 2 contains a summary of the issues I have raised with the Council as part of my Annual Governance Report. I note that 2008/09 has been a year of transition for the Finance Department with changes in staffing and roles that has continued into 2009/10.

Table 2

Issue	Recommendations
My audit review identified some basic errors in the content of the accounts with notes to the accounts being inconsistent with the primary statements and values being shown from last year rather than for the 2008/09 period.	The financial statements should be quality checked prior to audit. This should as a minimum ensure the content is consistent with expectations but also that basic consistency of information between statements and notes is achieved.
Working papers to the accounts should be both complete and accurate to enable an adequate audit trail to support the content of the financial statements. Whilst working papers were provided at the start of the audit these were for the wrong year - subsequent replacements were not the final versions and did not always accurately reflect the underlying financial systems and documentation of the Council.	There is significant scope for improvement in the quality, timeliness and accuracy of working papers.
Completeness of non domestic rates (NDR) and Council Tax reconciliations.	Officers should ensure that NDR and Council Tax reconciliations include full analysis of any year end reconciling items.

29 I agreed an action plan with Council officers for the items above within my Annual Governance Report 2008/09. I will monitor progress during my 2009/10 audit.

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.

Use of resources judgements

- 30** 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. Level 1 represents a failure to meet the minimum requirements at level 2.
- 31** 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.
- 32** The Council's use of resources theme scores are shown in Table 3. The key findings and conclusions for the three themes, and the underlying KLOEs, are summarised in Appendix 1 and h have held separate discussions with officers regarding our detailed findings.

Table 3 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	3

- 33** The Council scores 2 out of 4 for Use of Resources. The Council manages its finances properly. Although the Council's investments were exposed to the problems of Icelandic Banks, losses are being recovered. Bassetlaw is committed to providing more efficient services at low cost, and retaining a low level of council tax. Significant savings have been made during the year which will be redirected to priorities such as street cleansing and other direct services for residents. Savings will also be used to provide local communities with small budgets to develop services or improve the environment; this will support the development of town centres and rural villages.
- 34** The Council has worked to improve performance and streamline its business. It has made good progress in ensuring that people can access services and gain information about the Council. The Council manages its workforce well providing strong leadership. There is reduced sickness absence. Staff are committed to customer service and understand their role in achieving Council priorities and targets.
- 35** Although the theme scores under the revised use of resources framework are lower than the scores achieved in previous years, this does not necessarily reflect any deterioration in the Council's overall performance as the basis of the assessment has been revised. An overall theme judgement of 2 means that the arrangements we would expect to see are in place and in a number of areas the Council performs well. In common with many councils, the challenge in order to achieve higher scores is to demonstrate how your arrangements result in improved outcomes consistent with the Council's aims and those of its key partners.

VFM Conclusion

- 36** I assessed 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.
- 37** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Standing

- 38** The last year has seen a global and national economic recession. The consequences for councils have been increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge going forward to maintain service levels whilst maintaining a sound financial position.

Value for money and use of resources

- 39** The 2008/09 audited financial statements report a General Fund reserve of £2.38 million. You have recently reviewed and updated your medium term financial plan and reported latest projections for the three years to 2012/13 to Cabinet in October 2009. Your recent budget monitoring report forecasts a £370,000 overspending for 2009/10. You are continuing to monitor your budgets closely and overall you are reporting no immediate significant financial pressures. Your recent track record is one of managing your spending whilst achieving both savings and efficiencies. As you recognise, there are financial pressures for all councils as well as some unique to Bassetlaw which will continue to require further savings to be achieved as well as close financial monitoring and management.
- 40** As I reported in my last Letter in March 2009, the Council had £8 million invested in the failed Icelandic Banks. As I have reported above, following national guidance, the Council reported a £2.1 million impairment of its Icelandic investments in its 2008/09 accounts. Some repayments of principal have already been made by the affected banks and the Council, as reported to Members by officers in October, continues to assess its options for dealing with the impairment. The short-term cash-flow impact has been partially offset by the significant capital receipt in March 2009 relating to a supermarket development.
- 41** In 2008/09 the Council took action to review its appetite for risk and thereby its approach to treasury management (prompted by the Icelandic banking failure). As a result it adopted a revised treasury management strategy in February 2009.
- 42** I will continue to monitor the Council's actions in the key area of financial standing over the coming audit period.

Managing performance and organisational assessment

Managing Performance

- 43** The Audit Commission assesses how well the Council manages and improves its services and contributes to wider community outcomes. The 'Managing Performance' assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to local people.
- 44** The Council score for Managing Performance this year is 2 out of 4 (the scoring mechanism is the same as that for Use of Resources).
- 45** The Council has made progress with improving the cleanliness of the environment through additional funding found from efficiency savings elsewhere. Crime figures are improving, although overall levels still remain high. The Council is working with partners to reduce incidents relating to alcohol and drug misuse. It has been successful in attracting new businesses, creating some new jobs and inward investment in the area is very good.
- 46** The Council has improved its performance in many areas although it still has some progress to be made to catch up with other near neighbours. It has the skills and capacity to support improvement. It works well with a wide range of partners and has effective leadership with commitment to the area.

Overall Organisational Assessment

- 47** 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 the organisational assessment judgement for Bassetlaw District Council is that it performs adequately.
- 48** Overall Bassetlaw District Council performs adequately. Bassetlaw's priorities match many of the concerns of local people. People are concerned about teenagers and young people, crime and the environment. The Council is making progress in improving these areas through additional investment. However progress is not always as quick as it should be. While some environment areas such as street cleansing have improved well, others – such as recycling have not. Some aspects of community safety have improved, such as reductions in numbers of violent or vehicle crimes, but others such as numbers of burglaries have not.

Managing performance and organisational assessment

- 49** People are increasingly satisfied in their area and with what the Council is doing. 73.5 per cent of people are satisfied with Bassetlaw as a place to live, but levels of satisfaction remain low when compared with similar areas. Also satisfaction with how the Council runs things is lower at Bassetlaw than in most other councils. In 2008/09 half the residents felt that people treat each other with respect and this is a good improvement from a previous survey in 2006/07. There has also been an increase in people being involved in their area, such as through volunteering and local community work.
- 50** The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Nottinghamshire, Stephen Barnett. The final assessments will be published on the new Oneplace web-site on 9 December.

Closing remarks

- 51** I have discussed and agreed this letter with the Chief Executive and the Director of Resources. I will present this letter at the Overview and Scrutiny Committee on 26 January 2010 and will provide copies to all Council members.
- 52** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to Bassetlaw District Council during the year.

Table 4

Report	Date issued
Initial Audit Plan 2008/09	May 2008
Supplementary Audit Plan 2008/09	April 2009
Annual Governance Report 2008/09	Nov 2009

- 53** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff and members for their support and co-operation during the audit.

Andrew Blackburn
 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.

Managing finances

Theme score	2
Key findings and conclusions	
The Council has adequate arrangements for managing its finances to deliver value for money.	
KLOE 1.1 (financial planning)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council performs adequately in planning its finances to deliver its strategic priorities and secure sound financial health in a difficult economic climate. The Council integrates its corporate and financial planning processes. All strategies of corporate functions are linked through the plan to provide a cohesive strategy for service delivery. The Council has a track record of operating within budget. There is a stable finance team which provides financial leadership, training and support for budget holders and other managers. The new senior management team has improved the overall financial culture of the Council. There is an environment of routine challenge of financial assumptions and performance.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Council has adequate arrangements for understanding its costs and performance and achieving efficiencies in its activities. The Council has developed a sound understanding of its costs and performance and has used this knowledge to achieve efficiencies through a programme of service review. There is a value for money strategy which supports a corporate approach to its achievement. The approach includes use of business process re-engineering which will be further extended during 2009/10. The Council has a good recent track record of savings described in the Annual Efficiency Statement.</p>	
<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Council has adequate arrangements for financial reporting in order to ensure that it is timely, reliable and meets the needs of internal users, stakeholders and local people. The Council's budget management process was reviewed and improved in June 2008. The Council uses both financial and performance indicators to monitor performance. There were no material errors in the 2007/08 accounts. For 2008/09 the accounts were prepared to the required deadline and supported by adequate working papers.</p>	

Appendix 1 – Use of resources key findings and conclusions

Governing the business

Theme score	2
Key findings and conclusions	
Overall the Council has adequate arrangements for governing itself and commissioning services that provide value for money and deliver better outcomes for local people.	
KLOE 2.1 (commissioning and procurement)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council has adequate arrangements for commissioning and procuring quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.</p> <p>The Council has a clear view of the diversity and inequalities within its local communities. Service users and stakeholders are consulted on corporate priorities and use of savings to enhance the area. An ambitious programme of service review and business process re-engineering is in place. The Council works with partners to procure goods and services and to develop joint working to promote value for money. The Council is looking at alternative service delivery options - some of this work is at an early stage.</p>	
KLOE 2.2 (data quality and use of information)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council produces relevant and reliable data and information to support decision making and manage performance.</p> <p>The Council has good arrangements for producing relevant and reliable data and securing data quality. The Council uses a wide variety of data to inform decision making and performance review and it is further developing performance management systems to ensure accuracy.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council has adequate arrangements for promoting and demonstrating the principles and values of good governance. The Constitution and Financial Procedure Rules contains the details of roles and responsibilities of key members and officers of the Council. There is a defined scrutiny function through two committees, Overview and Scrutiny and Performance Improvement. There is an annual report on activity and an annual review of the scrutiny function.</p> <p>The Council has adopted codes of conduct for staff and members. It monitors the registers of interests and other governance procedures. The Whistle Blowing Policy is contained in the Council's constitution and on the Council Intranet for staff. There is little evidence of active promotion of ethical standards.</p>	
<p>KLOE 2.4 (risk management and internal control)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council has embedded processes for management of risk and a sound system of internal control. The risk management strategy is updated annually. Corporate risks are reviewed on a quarterly basis. The Council has an Anti-Fraud Strategy approved by members and communicated to all staff. Internal Audit arrangements meet CIPFA requirements. Recommendations from internal and external audit are monitored by the Overview and Scrutiny Committee.</p>	

Appendix 1 – Use of resources key findings and conclusions

Managing resources

Theme score	3
Key findings and conclusions	
The Council has good arrangements for planning, organising and developing its workforce to support the achievement of its strategic priorities.	
KLOE 3.3 (workforce planning)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
Soundly established arrangements for managing the workforce support corporate plan objectives. The Strategy and Workforce Development Plan 2009/10 is subject to regular review. Focused training has improved performance and reduced sickness absence - sickness absence management has led to a reduction from 11.9 to 10.3 days. The Council received recent re-accreditation from Investors in People. Employees are involved in organisational change through consultation. The Council has regularly refreshed human resources policies and procedures which are benchmarked against others. The workforce is largely representative of its community.	

The Audit Commission

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