

Annual Audit Letter

Chesterfield Borough 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.

- 1** You can take assurance from the fact that I have been able to give an unqualified opinion on the financial statements. The draft financial statements were changed to correct a few errors but overall the quality of the financial statements was good.
- 2** I have also given an unqualified value for money conclusion as you have adequate processes in place to manage and use your resources to deliver value for money. The next step is for you to prove that these processes are actually helping you deliver priority services to the community.
- 3** Last year you managed to reduce initial spending plans to keep within the resources available. In the current year this is proving more difficult and despite making savings you may need to use balances because of an unexpected shortfall in central government funding for free bus travel. Looking forward there will be a continuing gap between spending plans and resources until the impact of funding for free bus travel is addressed. You must continue to monitor this closely and take any necessary action.
- 4** Our assessment of you as an organisation is that you perform adequately overall. You are effective in identifying priority services that are important to local people. You have a clear long-term vision and five-year plan. However, you are facing a huge challenge and you are trying to protect priority services needed by local people. Satisfaction with public services in Chesterfield is better than many other areas.

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

- 5 I issued an audit report including an unqualified opinion on the financial statements on 25 September 2009. The financial statements presented to audit contained a few non material errors which were amended.

Material weaknesses in internal control

- 6 I did not identify any significant weaknesses in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware. However, the weaknesses within the payroll system identified in previous years were ongoing in 2008/09. This meant that I had to undertake additional testing at the year end to obtain sufficient assurance that the payroll expenditure within the financial statements was materially correct.

Accounting Practice and financial reporting

- 7 I considered the qualitative aspects of your financial reporting. I reported three issues through my Annual Governance Report relating to the following:
- I consider that the Council could improve its arrangements for the preparation, review and audit of its financial statements and the working papers it compiles to support these. In particular, a full compliment of supporting working papers needs to be provided at the start of the audit.
 - The Council did not identify any joint arrangements within the 2008/09 financial statements although the joint crematorium meets the definition of a joint arrangement. A disclosure note was subsequently added. The Council must account for the joint crematorium as a joint arrangement in 2009/10 with the assets, liabilities and revenue income and expenditure split over the constituent authorities and shown within the constituent authority statements.
 - The Council's draft statement of accounts declares a departure from reporting requirements. Vehicle, Plant and Equipment (VPE) are valued at historic cost rather than the lower of net current replacement cost or net realisable value in existing use. Full compliance with reporting requirements is encouraged.

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

- 8 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.
- 9 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.
- 10 The Council's use of resources theme scores are shown in Table1. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

Table 1 Use of resources theme scores

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

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- 11 Although the overall theme scores under the revised use of resources framework are lower than the scores achieved in previous years, this does not reflect any deterioration in overall performance as the basis of the assessment has been revised. The overall theme judgement of 2 means that the Council has arrangements which are consistent with established professional practice and guidance, meet statutory requirements and operate effectively. In order to move to the next level, the Council needs to demonstrate that these arrangements are not only effective but are having an impact on outcomes and the delivery of strategic priorities.

- 12** The Council clearly links its plans with budgets and manages its finances soundly. The Council has achieved efficiency savings of £1.24 million in 2008/09, exceeding its target of £790,000. However, the unexpected cost of providing free bus travel through the concessionary fares scheme has had a significant impact on the Council's ability to deliver its plans to develop services. It has forced the Council to make further savings to balance its budget and looking ahead it will either need to make further cuts or take money from its reserves. The Council has limited information on costs so it is unable to make comparisons and identify possible cost savings across all services. There is scope to further improve the way the Council buys goods and services.

VFM Conclusion

- 13** 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.
- 14** 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

- 15** The last year has seen the country enter a significant economic recession. The consequence locally, is an increasing demand for some public services alongside reduced income from others 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.
- 16** The Council's original budget for 2009/10 had envisaged a £1.7 million deficit for the year. Action to date, including voluntary redundancies, Heads of Service restructure and a reduced pay award has reduced that projection to a £1 million deficit and budget holders are actively working to make further savings during the remainder of the year.
- 17** The Council's last medium term financial plan also originally projected a significant deficit in 2010/11 although the Council is continuing to work to reduce this. A large proportion of the deficit was due to the shortfall in funding of concessionary fares impacting over the three years from 2008/09 onwards. However, the Department for Transport has recently issued a consultation paper proposing a redistribution of the special grant for 2010/11. The impact of this proposal, if implemented, would be to provide Chesterfield with a further £1.8 million funding in the year, eliminating the projected deficit and potentially leaving an in year surplus.
- 18** As already noted under our use of resources assessment the Council's has robust financial management arrangements. However, it is likely that you will continue to face tough decisions on allocating resources given the economic conditions at least until the issue of concessionary fares funding is resolved. I will continue to monitor your response and actions in this key area.

Managing Performance and 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.

Managing Performance

- 19 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.
- 20 The Council scores 2 out of 4 for managing its performance (the scoring mechanism is as for Use of Resources).
- 21 The Council is effective in identifying priority services that are important to local people. It has a clear long-term vision and five-year plan. However, because of an unexpected shortfall in central government funding for free bus travel the Council is facing a huge challenge. It is addressing this and achieving savings by making staff redundant, freezing non-essential spending and posts and reorganising its senior management. In doing so, it is trying to protect priority services needed by local people.
- 22 People like living in Chesterfield. Over four out of five local residents think that Chesterfield is a good place to live. Satisfaction with public services is better than many other areas. Even so, less than half of local people are satisfied with the way the Council runs things, and even fewer feel it provides value for money. To help monitor performance the Council has over a hundred and twenty targets. Last year, it met about two thirds of these; and improvements made in many priority areas. Streets are clean but satisfaction has fallen, grass cutting remains good, fly-tipping is reducing and recycling increased. There are more opportunities for young people to take part in activities. The Council continues to look at ways of saving money and becoming more energy efficient. Chesterfield is also weathering the recession. It has been successful in boosting the local economy by attracting a major employer, increasing tourism and helping residents in deprived areas find work.

23 The Council and its partners are tackling crime, disorder and nuisance caused by alcohol and young people. Alcohol related assaults fell as a result of closing streets in the town centre over Christmas. However, not enough is being done to tackle all the priorities agreed for Chesterfield. Performance on some priorities is not as good as expected and some have been affected by the impact on budgets of providing free bus travel to pensioners and disabled people. The standard of council housing is falling and service at the shared Customer Service Centre has been poor. People are concerned about being safe; burglaries and theft from vehicles are rising. Serious violent crime is decreasing but is the highest in the County, and tackling alcohol-related crime is a key focus. The Council now needs to focus efforts on meeting its priority targets so it can deliver improvements across all areas. Plans are underway to sharpen and improve how things are run.

Overall Organisational Assessment

- 24** 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 the Council is that it performs adequately.
- 25** The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment for Derbyshire, Beverley Parker.

Closing remarks

- 26** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Standards and Audit Committee on 11 December 2009 and will provide copies to all Council members.
- 27** 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 Reports

Report	Date issued
Audit Plan	May 2008
Annual Governance Report	21 September 2009
Opinion and Certificate	25 September 2009
Organisational assessment	10 December 2009

Audit Fees

- 28** I was able to deliver the audit within the fee agreed at the start of the year as summarised below.

Table 3 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	74,929	74,929	nil
Value for money	23,334	23,334	nil
Data Quality	7,554	7,554	nil
Whole of Government Accounts	932	932	nil
Total	106,749	106,749	nil

Independence

- 29** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.
- 30** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

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.

Managing finances

Theme score	2
Key findings and conclusions	
Overall the Council has adequate arrangements in place to manage its finances and deliver value for money.	
KLOE 1.1 (financial planning)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The council's financial planning is linked closely to strategic and service planning and has previously been assessed as robust. The significant projected longer term budget deficit (arising from changes to the costs and funding of concessionary fares) has heightened the importance of ongoing financial monitoring, planning and subsequent action. The Council's financial position has been promoted to the top risk item within the risk register and the Council has further emphasised the importance of its already established Financial Planning Group (FPG). A notable practice submission has been prepared covering the integration of financial management.	

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 FPG has been used to good effect to focus the corporate attention on bridging the medium term and longer term financial gap and a number of significant steps have been taken in response including redundancies and service efficiencies. In this context the value of regular, prompt and accurate financial information has become paramount. Due to the focus on cost reduction to maintain a viable budget in the medium term, cost and comparative information is used to inform specific reviews but isn't used systematically or as part of an integrated performance assessment process.</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's arrangements for in year financial reporting are robust in order to inform strategic decisions taken on a monthly basis. The council has a good track record in the preparation of the year end statement of accounts. Through the Council's ongoing engagement with Eco-management and Audit Scheme (EMAS) it also produces comprehensive annual environmental report. The council also produces an annual report which is comprehensive yet well written to convey to the reader the key messages covering progress against the council's strategic priorities in a balanced way. The Council needs to be able to evidence the impact of these arrangements.</p>	

Appendix 1 – Use of resources key findings and conclusions

Governing the business

Theme score	2
Key findings and conclusions	
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	
The Council has the basics right in procuring quality services and supplies, tailored to local need, to deliver sustainable outcomes. However, the council has had to focus on budget issues to address the impact of concessionary fares, which has limited its capacity and ability to improve. The Council has a traditional approach to procurement and commissioning. It has a procurement strategy and guide but evidence that procurement activities contributes to better outcomes is limited. The Council has entered into some shared service arrangements with neighbouring councils.	
KLOE 2.2 (data quality and use of information)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
Members receive fit for purpose information and appropriate information is supplied to support decision making. But in 2008/09 the Council did not have a consistent approach to ensure that data quality issues were effectively addressed at all levels across the Council. Whilst the council monitors performance against its priorities, the use of SMART targets is not consistently embedded across all departments.	

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's arrangements promote and demonstrate the principles and values of good governance. The Council is involved in partnership working across a range of services with different partners appropriate for the services being delivered. A Partnership Development and Evaluation Toolkit has been produced which incorporates a methodology for assessing the risk in existing partnerships and proposed partnerships. However, the Council recognises that there is more to do in promoting good governance in partnerships more generally.</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's risk management and internal control arrangements ensure that the organisation is appropriately governed. Through the introduction of a consortium to provide internal audit across 3 district councils the Council has a robust counter fraud strategy and appropriate resources to implement it. The Standards and Audit Committee provides a robust challenge process within the democratic system.</p>	

Appendix 1 – Use of resources key findings and conclusions

Managing resources

Theme score	2
KLOE 3.3 (workforce planning)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>CBC performs adequately in planning, organising and developing its workforce effectively to support the achievements of its strategic objectives. The Council has a productive and skilled workforce, but is reducing this to meet financial pressures. Redundancies are being managed to avoid skills/capacity gaps. Recruitment and selection guidance is aligned to equal opportunities. The performance management system identifies skills gaps/development needs and poor performance is addressed. CBC has a learning and development programme and also invests in developing leadership development/management skills. Fewer than half of new starters attended Corporate/Equality/H&S Inductions in 2008/09. Well-being initiatives are promoted in Health Week, and sickness absence has reduced to an average of 8.5 days.</p> <p>Workforce planning is developing; a new Workforce Strategy is to be implemented; a Workforce Planning Framework was developed for use in 2008/09; and a Workforce plan will follow. Joint working arrangements are in place for Procurement, Internal Audit and Building Control. The IIP report comments positively on leadership style/management effectiveness at the Council and it demonstrates adequate leadership, management of organisational change and support to its workforce. Members can access a leadership and development program. Communications are through a variety of media, and consultations take place in managing change. Staff satisfaction and morale have not been monitored since 2006/7 with a 27 per cent response.</p> <p>The Council has a raft of policies and procedures to support good people management and managers are trained and supported to implement these. It has adopted the Equality Standard for LG but remains at level 2. Without improvement it will not achieve fair employment outcomes and equal access to services. CBC is working towards building a workforce that is more representative of the local community, but is challenged given the ethnicity demographics.</p>	

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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