

Annual Audit Letter

Chichester 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.

Audit opinion

- 1 I issued an unqualified audit opinion on the Council's financial statements on 30 September 2009. However, my audit certificate was delayed until 7 October 2009 to allow me time to consider matters brought to my attention by a local authority elector.
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Financial Statements

- 2 There were no significant issues arising from the audit. The Council delivered good quality financial statements which were supported by high quality working papers. All amendments requested by us were made.
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Value for money conclusion

- 3 I issued an unqualified value for money conclusion on 30 September 2009 stating that the Council has adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources in 2008/09.
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Use of resources

- 4 2008/09 was the first year of the Audit Commission's new Use of Resources (UoR) framework. The new framework differs significantly from our previous Use of Resources assessment and assesses how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people.
 - 5 My assessment considered how well the Council performed across the following three areas.
 - Managing finances.
 - Governing the business.
 - Managing resources.
 - 6 The Council performed strongly in each of the three areas. It scored three for each theme and a three overall. This puts the Council in the best performing 25 per cent of district councils in the Country. Across all areas the Council was able to demonstrate a number of strong outcomes.
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- 7 To move to the next performance rating (level 4) the Council needs to demonstrate that:
 - it has a corporate wide understanding of the effectiveness of partnership working at delivering its priorities and improved outcomes for local people;
 - it can identify outcomes arising from good ethical behaviour, governance and internal controls; and
 - its arrangements deliver best practice, innovative and sustainable outcomes for local people across the wide scope of the UoR themes.
 - 8 This is likely to be challenging to achieve in 2009/10 because management capacity is under significant pressure. The Council is refreshing all its key strategies to align them to the Sustainable Community Strategy; completing a programme of council-wide service reviews required to deliver significant efficiencies, and implementing new service requirements such as the migration to International Financial Reporting Standards.
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Health Inequalities

- 9 Our cross sector county-wide review of the effectiveness of the arrangements to address health inequalities throughout West Sussex was undertaken in two phases.
 - 10 Phase one highlighted that partners have a good understanding of the health of local people and good progress has been made to reduce health inequalities. Important organisational delivery structures had been established and partners were developing a clear strategic direction although there was no formal strategic framework in place.
 - 11 Phase two addressed the key question of 'How likely are partnership arrangements in West Sussex to reduce health inequalities across the local population?' It also reviewed progress made against the agreed phase one action plan.
 - 12 Good progress has been made against the action plan and in our view the health inequalities partnership arrangements in West Sussex are likely to reduce health inequalities across the local population. However, a county-wide health inequalities action framework has not yet been developed which means that the work taking place to reduce health inequalities is not being led at a county level, with the potential for conflicting plans and reduced success in tackling health inequalities.
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International Financial Reporting Standards (IFRS)

- 13 From 2010/11 local government bodies are required to prepare their financial statements in compliance within International Financial Reporting Standards (IFRS) and the timetable for achieving this has already started as 2009/10 figures will require restatement under IFRS to form the comparative data for 2010/11.

Key messages

- 14 The Council is making appropriate preparations for the adoption of IFRS. Finance staff have received detailed IFRS training, a report setting out the outline IFRS implementation timetable and resource impact was presented to the September 2009 Corporate Governance and Audit Committee. The Council also commissioned an IFRS workshop for staff and members from the Audit Commission in September 2009 and is setting up a cross departmental project group to manage the IFRS transition. This group will prepare and monitor progress against the detailed IFRS implementation plan.

Economic downturn

- 15 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. There are issues which fundamentally impact on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. As part of my responsibilities, I have considered the wider environment, specific risks and the Council's response to these.
- 16 The economic downturn is likely to have an adverse impact on the funding and income available in future years. There will be an increasing need, both financially and politically, for the Council to continue to improve the value for money of services provided and demonstrate this improvement. Patterns of demand for services are changing and the Council will need to ensure that 'worse-case' scenarios are appropriately factored into its medium and long term financial planning.
- 17 The economic downturn may result in increased costs to the Council as a result of an increased demand for services by vulnerable groups affected by the more difficult financial climate.
- 18 There may also be an increased risk of fraud. There is a well-established link between a deteriorating economy and increasing levels of fraud and the Council will need to continue to invest resources to mitigate this risk.
- 19 The Council has robust financial planning arrangements and has already identified that it needs to make substantial efficiencies over the next three years. A Council wide programme of service reviews is in progress and the Council has announced a reduction in its senior management structure which will realise £300,000 of savings annually. We will continue to monitor Council work in this area.

Audit fees

- 20 I am required to disclose the fees for my audit and non-audit work at the start of my audit in the audit plan and again at completion of the audit in my Annual Audit Letter. This is shown in Table 1.

Table 1 **Audit fees**

	Audit Fee agreed at start of year 2008/09	Additional fees arising in year 2008/09	Final audit fee for 2008/09	Final fee in 2007/08
Financial Statements and Annual Governance Statement	£63,060	£3,500 ¹	£66,560	£64,150
Value for money work	£37,440		£37,440	£34,300
Total audit fees	£100,500	£3,500	£104,000	£98,450

Actions

- 21 The detailed findings, conclusions and recommendations in the areas covered by my audit are included in my detailed reports issued to the Council during the year. We will monitor progress against these recommendations as part of our 2009/10 audit work.

Independence

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

¹ Additional fees were agreed with the Council in year and reported previously to the Corporate Governance and Audit Committee. They were in respect of additional audit work on risks arising in year relating to the economic downturn (eg fixed assets and the management restructure).

Financial statements and annual governance statement

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

Significant issues arising from the audit

- 22 There were no significant issues arising from the audit. I issued an unqualified audit opinion on the Council's financial statements on 30 September 2009. However, my audit certificate was delayed for a short time to allow me time to consider matters brought to my attention by a local authority elector. I concluded this work and issued my statutory audit opinion and the audit certificate on the 7 October 2009. The matters brought to my attention had no material effect on the financial statements.
- 23 The Council delivered good quality financial statements which were supported by high quality working papers, and amended all adjustments which we asked them to. The key accounting amendments required related to:
- implementing the accounting changes and disclosures required in respect of revenue expenditure funded from capital under statute. This is a new accounting requirement under the Statement of Recommended Practice 2008 and replaces the previous accounting approach for deferred charges;
 - correction of the classification of expenditure on the canal basin. This had been incorrectly shown as an addition to fixed assets when the asset is owned by West Sussex County Council. The related expenditure should also have been treated as revenue expenditure funded from capital under statute; and
 - inserting a post balance sheet note to reflect decisions in respect of the management restructure which were made after the accounts were issued for authorisation on 18 June 2009.

Material weaknesses in internal control

- 24 I did not identify any significant weaknesses in your internal control arrangements. The Council takes audit recommendations seriously and has acted on all our previous recommendations.
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Annual Governance Statement

- 25 I reviewed your Annual Governance Statement, and in my view it was prepared in accordance with the requirements set out in the Accounts and Audit Regulations 2003 and 2006 and is consistent with the findings from our audit.
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Value for money conclusion

I 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.

VFM conclusion

- 26 I issued an unqualified conclusion on 30 September 2009 stating that Chichester District Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 27 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission and reported the results of my review in the Annual Governance Report. From 2008/09, the Audit Commission specify each year, which of the use of resources key lines of enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

Use of Resources

I have 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 I have given my scored use of resources judgement.

Use of resources

- 28** 2008/09 is the first year of the Audit Commission's new Use of Resources (UoR) framework which assesses how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people.
- 29** The new framework differs significantly from our previous UoR framework. It defines use of resources in a broader way, embracing the use of natural, physical and human resources, and places new emphasis on effective partnership working to deliver sustainable services for local people whilst achieving value for money. The new assessment is more demanding focusing much more on outputs and outcomes for local people rather than on processes. It requires the Council to continually evaluate whether its actions are having the desired impact in achieving strategic objectives and whether they are leading to improved outcomes in the local area - and if so, to understand and be able to demonstrate what those outcomes are.
- 30** The assessment comprises three themes which are supported by a number of key lines of enquiry:
- sound and strategic financial management (the managing finances theme):
 - strategic commissioning and good governance (the governing the business theme); and
 - the management of natural resources, assets and people (the managing resources theme).
- 31** In forming my scored use of resources judgements, I used the methodology set out in the Audit Commission's 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.
- 32** My overall assessment confirmed the Council was performing well (level 3) across all themes. Details of my audit findings are were reported in my Annual Governance Report. A summary is provided below in Table 2. This level of performance places the Council in the best performing 25 per cent of district councils in the country.

Table 2 Use of resources theme scores

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

- 33** Integrated strategic and service planning is embedded at the Council. Costs and performance, including opportunities for continued efficiency gains, is regularly reviewed and challenged. The Council has a history of delivering its efficiency plans and the savings it has achieved have significantly exceeded government targets. Benchmarking and other non financial data is used effectively and the Council has good arrangements to promote external accountability.
- 34** The Council always looks for innovative solutions to deliver services which maximise use of new technologies, meet community needs and expectations, maximise partnership working and deliver efficiencies. Many examples of innovative projects were provided for review. Sound data quality and information technology security arrangements exist and there is excellent use of information, benchmarked data, shared partnership data and performance indicators in decision making to enhance scrutiny and challenge. Strong risk management arrangements have enabled the Council to deliver its strategic and operational objectives.
- 35** Workforce management is strong and the Council was voted 12th best employer in the 2008 Times Survey. Succession planning, training and recruitment arrangements are flexible and have delivered efficiency savings and improved service outcomes. The Council has no skills gaps as result of effective development and recruitment, a low staff turnover, low staff sickness, an increasing number of females in the top 5 per cent of earners, and its workforce reflects the ethnic mix of its community. Equality and diversity is taken seriously and a rolling equalities training programme is provided for all staff.
- 36** To move to the next performance rating (level 4) the Council needs to demonstrate that:
- it has a corporate wide understanding of the effectiveness of partnership working at delivering its priorities and improved outcomes for local people;
 - it can identify outcomes arising from good ethical behaviour, governance and internal controls; and
 - its arrangements deliver best practice, innovative and sustainable outcomes for local people across the wide scope of the UoR themes.

Use of Resources

37 In my view this may prove a challenge to the Council as 2009/10 is a year of transition and management capacity is under pressure. Many of the Council's key strategies are under review in order to align them to the Local Strategic Partnership's Sustainable Community Strategy. The new strategies will come into effect from 1 April 2010, and much management capacity is being devoted to evaluating and refreshing them. In addition, a programme of Council wide service reviews is in progress to deliver significant efficiencies, and preparation for the implementation of IFRS is placing additional pressures on the management capacity with the risk that management focus is diverted from improving outcomes for local people.

Health inequalities

- 38** Our cross sector County wide review of the effectiveness of the arrangements to address health inequalities throughout West Sussex has been undertaken in two phases; the first phase was completed in early 2008, and phase two was concluded in September 2009. The review involved the PCT, West Sussex County Council, Sussex Police, Sussex Partnership Trust, Western Sussex Hospitals Trust and all the district and borough councils in West Sussex including Chichester District Council.
- 39** Phase one highlighted that partners have a good understanding of the health of local people and good progress had been made to reduce health inequalities. Important organisational delivery structures were in place, including the establishment of five Local Neighbourhood Improvement Areas (LNIAs) in the areas of most deprivation in the County. Partners were developing a clear strategic direction although there was no formal strategic framework in place. We agreed an action plan with West Sussex PCT (the lead organisation) to progress key issues arising from the review.
- 40** Phase two addressed the key question of "How likely are partnership arrangements in West Sussex to reduce health inequalities across the local population?" It also reviewed progress made against the agreed phase one action plan.
- 41** Good progress has been made against the action plan in most areas particularly in relation to the development of partnership working and the establishment of countywide structures to support work to reduce health inequalities. In our view the health inequalities partnership arrangements in West Sussex are likely to reduce health inequalities across the local population. However, a countywide health inequalities action framework has not yet been developed which means that the work taking place to reduce health inequalities is not being led at a county level, with the potential for conflicting plans and reduced success in tackling health inequalities.

Closing remarks

- 42 This letter has been agreed with the Chief Executive and the Director of Corporate Services and will be reported to the Corporate Governance and Audit Committee on 26 November 2009.
- 43 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued during the year. Copies are available from the Director of Corporate Services

Table 3

Audit outputs	Date issued
Audit Plan	February 2008
Annual Governance Report (Opinion,vfm conclusion and use of resources)	September 2009
West Sussex Review of Health Inequalities	September 2009
IFRS presentation	September 2009

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- 44 Chichester District Council has taken a positive and constructive approach to our audit. I wish to thank the Council and its staff for their support and co-operation during the audit.

Lizzie Peers
Appointed Auditor
December 2009

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.

Copies of this report

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