

# Annual Audit Letter

Derbyshire County 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 from the audit of your accounts and the results of my work 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.**

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## Audit Opinion

- 1 I issued an unqualified audit opinion on the Council's accounts for 2008/09. I also issued my certificate of completion of the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.
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## Financial Statements

- 2 The draft accounts were produced before the required statutory date and we completed the audit to the agreed timetable.
  - 3 There were a number of significant errors in the accounts, many relating to debtors and creditors. Whilst the overall level of error was not material, reducing the number of errors should be a key area for improvement for 2009/10 and beyond.
  - 4 Most systems controls operate well but we identified significant weaknesses in control account reconciliations including the main cash and bank account reconciliation and year end control accounts. This could lead to errors or losses going unreported. Officers are now taking action to improve this.
  - 5 Following Audit Commission advice, I recommended that the Council considers its current practice to ensure that its investment practices will not result in any disadvantage to the Pension Fund. In 2008/09 the Pension Fund has not suffered any loss of interest.
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## Organisational Assessment

- 6 Our assessment of the Council as an organisation is that it performs well. It is working with others to improve its services and local peoples' quality of life. Most services work well and are improving. Adult social care has improved. Ofsted rates children's services as good. GCSE results are just above national averages. Local services for safeguarding and looked after children are performing well. The Council is helping residents and businesses through the recession. It plans and manages its budgets to meet local needs. It has made savings and is looking at how it can save more. People like living in Derbyshire.
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## Financial Position

- 7 Spending was kept within budget in 2008/09 and in the current year you expect to maintain this performance. Although your current financial health is sound, the economic recession means an increasing demand for public services and the likelihood of reduced levels of central government funding. This provides you with the challenge of continuing to provide services to local residents, whilst maintaining a sound financial position. I will continue to monitor the Council's response and actions in this key area.

## Value for money

- 8 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.

## Audit Fees

- 9 The variance of £20,250 in the audit fee reflects an agreed increase in the cost of the pension fund audit (£9,750) and the increased cost of our work on your financial statements as a result of the number of errors found as well as dealing with an issue raised by a local government elector during 2008/09 (£10,500). The non audit work (£3,570) was support provided by our technical team on the proposed waste contract.

**Table 1     Audit Fees**

	<b>Actual</b>	<b>Proposed</b>	<b>Variance</b>
Financial statements and annual governance statement	231,250	211,000	20,250
Value for money	112,300	112,300	0
<b>Total audit fees</b>	343,550	323,300	20,250
Non-audit work	3,570	0	3,570
<b>Total</b>	347,120	323,300	23,820

## Actions

- 10 The recommendations shown within the body of this report have been agreed with the audited body.

## Independence

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

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# 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

### Financial Statements

- 12** Preparation of the accounts from the existing financial systems is difficult and new systems will be in place from 1 April 2010. We identified a number of significant errors in the accounts, many relating to debtors and creditors. These included two material errors, both of which related to the classification of short and long term debtors. None of the errors had an impact on the General Fund and most have been amended.
- 13** Extrapolation of the unadjusted errors in debtors and creditors confirmed that whilst the level of error was not material, this should be a focus for improvement in the closedown process for 2009/10 and beyond. Elimination of internal debtor and creditor balances from the balance sheet also needs to be achieved.
- 14** The Council should also aim to reduce the overall number of errors included in other areas of the accounts.

Recommendation
<b>R1</b> The Council should aim to reduce the number of errors included in the accounts and particular focus is needed on the classification and accuracy of debtor and creditor balances.

### Pension Fund

- 15** The Council's Pension Fund invests some of its surplus cash with the Council and in return receives interest at an agreed (and guaranteed) 7 day rate. In 2008/09 the average interest rate earned by the pension fund of 3.6% was in line with that earned by the Council on its own instant access accounts. As a result the Pension Fund has not suffered from any loss of interest although this may not always be the case, depending on the nature of investments made and movements in interest rates.
- 16** Whilst the Council's approach reflects common practice nationally and the Council asserts that it is in accordance with the prevailing regulations, the Audit Commission has raised concerns over this practice. I recommend below that the Council considers

its present practice to ensure that its investment practices will not result in any disadvantage to the Pension Fund

### Recommendation

**R2** The Council should review its arrangements for investing pensions fund surplus cash to ensure that its investment practices will not result in any disadvantage to the Pension Fund

### Weaknesses in internal control

- 17** Overall, the key controls in your material financial systems are operating well, although we did identify significant weaknesses in control account reconciliations. These include the main cash and bank account reconciliation and year end control accounts relating to debtors and creditors. Some control accounts were not reconciled or contained long standing errors which had not been investigated. These weaknesses could lead to errors or losses going undiscovered and potential financial misreporting.
- 18** The weaknesses in the bank reconciliation covered both the process itself and management supervision. These issues have now been recognised by officers and an action plan is in place to improve the process.
- 19** Debtor and creditor control accounts had not been reconciled at 31 March 2009 and these reconciliations were completed during the audit visit. Some errors were identified during this process and these are being addressed as part of a data cleansing exercise prior to the transfer of data to the new core systems.

### Recommendation

**R3** Prior to the transfer of data to the new core systems it is essential that all key control account reconciliations are being completed promptly and all errors identified and cleared.

### Accounting Practice and financial reporting

- 20** I considered the qualitative aspects of your financial reporting. We identified a relatively small number of issues which were reported to the Audit Committee in our annual governance report. These included the issues relating to debtor and creditor balances referred to above and control account issues. The other issues were:
- Suspense and holding account balances were not always cleared at the year end and contained some long outstanding items;
  - There are some differences between the fixed asset system and the main ledger which should be resolved; and

## Financial statements and annual governance statement

- We identified opportunities to improve compliance with the Statement of Recommended Practice (SoRP), particularly in relation to pension liabilities (FRS17), prior period adjustments, and the provision of additional disclosure notes to cover all material balances.
- 21** We have made recommendations covering these matters in our annual governance report and they are not repeated here. A detailed action plan has also been agreed with officers.

# 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

- 22** 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 of level 2.
- 23** 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.
- 24** The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

**Table 2 Use of resources theme scores**

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

- 25** Overall, the Council has scored 2 out of 4 for its use of resources. 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. An overall judgement of 2 means that the arrangements we would expect to see are in place. We will agree an action plan with officers to enable them to identify opportunities to further improve performance.

### VFM Conclusion

- 26** 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.
- 27** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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### Financial Position

- 28** 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.
- 29** Spending was kept within budget in 2008/09 and the Council was able to make a large contribution to the General Reserve at the year end of around £27 million although this will all be needed over the short and medium term to meet ongoing commitments such as equal pay costs and addition service pressures. The latest report to the Council forecasts an expected overall under spending in 2009/10 of around £5 million against budget.
- 30** Your current financial health is sound with a general fund balance of just over £64 million at 31 March 2009. Additional reserves are also set aside to meet known liabilities. The Council is aiming to maintain a General Reserve of around £30 million over the next 5 years if possible. However, major challenges lay ahead in implementing policy decisions in the light of the uncertain economic prospects and the expected cuts in funding from 2010/11 onwards. In response to this, the Council has started to identify areas where service delivery will need to be re-engineered to deliver the significant savings that will be required.
- 31** The impact 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.

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# Organisational Assessment

**The Audit Commission's Comprehensive Area Assessment Lead (CAAL) for Derbyshire 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

- 32** 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.
- 33** Derbyshire County Council manages its performance well (3 out of 4 - the scoring mechanism is as for Use of Resources).
- 34** In summary, it is working with others to improve its services and local peoples' quality of life. Most services work well and are improving. Adult social care has improved. Ofsted rates children's services as good. GCSE results are just above national averages. Local services for safeguarding and looked after children are good. The Care Quality Commission says that adult social care is performing well. The Council is helping residents and businesses through the recession. It plans and manages its budgets to meet local needs. It has made savings and is looking at how it can save more.
- 35** People like living in Derbyshire – 8 out of 10 are happy with the local area and this has improved. But they are less happy with how the Council runs things and that it provides value for money. Satisfaction with this is lower than in other county council areas.
- 36** The Council has capacity to continue to deliver overall. The new leadership is clear about what it wants to achieve. The Council Plan is not up to date, but the Council is looking at this to bring it in line with political aims. The Council needs to improve how it makes plans so they are in place more quickly.

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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 the overall organisational assessment judgement for Derbyshire County Council is that it performs well (3 out of 4).
- 38** The detail of the Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead, Beverley Parker.

## Organisational Assessment

**39** There is a difference in the scores for managing performance (3 out of 4) and use of resources (2 out of 4). On balance we have decided that Derbyshire County Council should score a 3 out of 4 (performs well) overall. This is because children's services and adult social care have received strong ratings and because the Council continues to improve priority areas.

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**Table 3      Organisational assessment**

Managing performance	3 out of 4
Use of resources	2 out of 4

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# Closing remarks

- 40** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter to the Council and will provide copies to all council members.
- 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.

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**Table 4**

<b>Report</b>	<b>Date issued</b>
Interim Audit Memorandum 2008/09	8 September 2009
Annual Governance Report 2008/09	25 September 2009
Pensions Annual Governance Report 2008/09	25 September 2009

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- 42** 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.

Ian Sadd  
 District Auditor  
 November 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

<b>Theme score 2</b>	
Key findings and conclusions	
The Council has a strong record in financial planning and financial health. Overall it achieves the basic requirements.	
<b>KLOE 1.1 (financial planning)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
The Council sets a timely, comprehensive, and balanced budget which is fully integrated with the medium term planning process. Financial governance and leadership is strong. The Council demonstrates good financial standing and balances the risk and rewards of investments well.	

## 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 has a good record in demonstrating improved value for money and is actively addressing service improvement and transformation. It is still developing a more consistent approach to costing and the use of benchmarking. Service plans have clear targets for efficiency savings but it is not always clear how these savings will be made.</p>	
<p><b>KLOE 1.3 (financial reporting)</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>Budget monitoring statements are concise and highlight the key issues and risks. Financial reporting is fit for purpose but there is greater scope for performance and non financial information to be reported alongside financial information. The planned new core systems should improve the quality of financial information generally. The accounts present fairly but scope for improvement remains.</p>	

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

### Governing the business

<b>Theme score</b>	<b>2</b>
Key findings and conclusions	
Services perform satisfactorily and overall the Council has a satisfactory system of internal control. Procurement practices and commissioning linked to outcomes are not yet fully developed although savings have been achieved. The Council meets the basic requirements regarding data quality, performance management and good governance.	
<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	
The Council has a good understanding of needs but commissioning is not fully linked to vision and outcomes. Joint procurement has resulted in savings and the Transformational Partnership is improving services. The Council has a wide ranging programme of service reviews but could make greater use of comparative data and benchmarking.	
<b>KLOE 2.2 (data quality and use of information)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
Data Quality policies and procedures are satisfactory and work with partners to secure data quality is developing. Governance arrangements are improving through routine internal audits plus scrutiny and challenge meetings. There are appropriate security arrangements for business critical information systems.	

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

<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 is actively developing its assurance framework by strengthening communications and performance management. Good governance is supported by clear roles set out in the Council's Constitution document and the strategic goals set out in the 2005-2009 plan. Scrutiny arrangements are satisfactory but outcomes need to be better evidenced in relation to member development, ethical training and the effectiveness of partnership working.</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>The Council manages risk effectively but outcomes could be better evidenced. The Council has a well established fraud and corruption strategy but has not evaluated its effectiveness in terms of inputs and outcomes. Internal control is satisfactory, despite old but stable systems which are due to be replaced in April 2010, but we have identified opportunities for improvement in key areas.</p>	

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

### Managing resources

<b>Theme score</b>	<b>2</b>
Key findings and conclusions	
The Council has a wide ranging environmental policy and has taken the lead on awareness raising initiatives. Good progress has been made in reducing consumption through recycling and use of energy saving technologies. The Council is still developing a strategic approach to asset management and partnership working is at an early stage.	
<b>KLOE 3.1 (use of natural resources)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
The Council has a wide ranging environmental policy but still needs to develop actions plans and targets. The Council has taken the lead on awareness raising initiatives. Energy and other resource use are monitored and good progress has been made in reducing consumption through recycling and use of energy saving technologies. Sensitive environmental sites have been protected.	
<b>KLOE 3.2 (strategic asset management)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
The Council is still developing a strategic approach including assessing the performance of current accommodation and integrating financial planning with asset management. Progress to date on the Corporate Property Rationalisation Programme has been slow. Condition surveys are well established and focus on planned maintenance which facilitates better forward planning. Partnership working is at an early stage.	

## 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>						
5	R1 The Council should aim to reduce the number of errors included in the draft accounts and particular focus is needed on the classification and accuracy of debtor and creditor balances.	3				
6	R2 The Council should review its arrangements for investing pensions fund surplus cash to ensure that its investment practices will not result in any disadvantage to the Pension Fund.	3				
6	R3 Prior to the transfer of data to the new core systems it is essential that all key control account reconciliations are being completed promptly and all errors identified and cleared.	3				

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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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