

# Annual Audit Letter

Forest Heath 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

**My annual audit letter summarises the findings from our audit work at your Council. My letter covers the 2008/09 financial year. It includes messages arising from the audit of your accounts and the results of the work I have undertaken to assess the way in which you use your resources.**

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## Accounts

- 1 The Council achieved its deadline to prepare and approve its accounts by the 30 June 2009. The accounts in general were complete and supported by good working papers and prompt responses to audit queries. This enabled me to complete my audit of your accounts and issue my opinion by the 30 September deadline.
  - 2 I issued an unqualified opinion on the Council's accounts for the financial year ended 31 March 2009.
  - 3 Our audit did find some material errors and uncertainties in the approved accounts although they did not impact on the overall financial position of the Council for 2008/09. Officers agreed to amend all the errors and uncertainties identified. I reported my findings to those charged with governance, in this case the full Council.
  - 4 A new reporting framework (International Financial Reporting Standards) will apply to all Councils accounts from 2010/11. The Council have developed a project plan to implement these standards and is progressing with the implementation of its plan.
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## Use of resources

- 5 We assess how the Council makes use of the resources at its disposal to provide local services. A national framework is applied to our assessment, with a score given between 1 (inadequate and below minimum standards) and 4 (performing strongly) in each of three key areas of our assessment; managing finances, governing the business and managing resources (people).
- 6 The Council is performing well overall (Level 3). This comprises my scores for each of the three assessment areas which show that the Council is performing well in the way it manages and governs its business and how it manages its people and is performing adequately in how it manages its finances.
- 7 Pages 9 to 11 of this letter summarise my findings across each of the three assessment areas.

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### Managing performance

- 8 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 the local people.
- 9 The Council scores three (performing well) out of four for managing performance.
- 10 The Council is generally delivering what it promised and has completed or is on target to complete 82 per cent of the actions in its delivery plan for 2008/09. There are more affordable homes in the district. The Council opened a new leisure centre in Newmarket, improved play and recreation facilities at Mildenhall Woods, and made it easier to access council offices and the website. Performance indicators show that performance is mostly improving well. Recycling rates are high and the district is kept clean and tidy.
- 11 Where performance has got worse, in most cases this is because of the impact of the recession, although the speed of decision making for major planning applications is poor. Seventy seven per cent of residents are satisfied with the area as a place to live, which is lower than average compared to other Suffolk councils. The Council has recognised that it needs to save money over the next three years and is reviewing its services to see where it can make savings
- 12 The Council works well with partners. It is part of the Western Suffolk Local Strategic Partnership, which brings together organisations like the police, neighbouring councils, West Suffolk College and community groups to work on projects to make life better for the residents of West Suffolk. Although NHS Suffolk is part of the partnership, limited staff time has prevented much health input.
- 13 The partnership is working well together on issues people have said are important to them, like reducing crime, helping people to be more active, reducing harm from alcohol and substance misuse and helping communities get on better together. Some of the initiatives have been extremely effective, such as activities for young people and working with children who are also family carers. However, people being drunk and rowdy in public places is an increasing problem in Forest Heath. The partnership did not meet the local target for Suffolk to reduce violent crime where alcohol and drugs were a factor.

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### Overall organisational assessment

- 14 Our Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment for the Council. The Audit Commission has determined that the organisational assessment judgement for Forest Heath District Council is that it performs well.
- 15 During December 2009, the Council's Organisational Assessment will be reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Suffolk, Edwina Child.

## Key messages

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### Financial standing

- 16 The last year has seen the United Kingdom enter a significant economic recession on the back of a global economic crisis triggered by the collapse of a number of high profile international banks.
- 17 The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these will provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position. The Council is responding to this challenge. The implications of the recession are understood and the challenges faced are being acknowledged by the Council as a whole. The latest financial strategy actively considers the impact of the economic downturn and addresses the funding shortfalls and increased demand for services identified.
- 18 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.

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### Audit fees

- 19 I am currently revisiting our fee assumptions to confirm whether I have been able to deliver my audit programme within the fee that I planned. My proposed audit fee is shown at Table 2.

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### Independence

- 20 As your External Auditor appointed to audit the Council, I have to maintain my independence. I confirm that this audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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### Recommendations

- 21 I have issued a number of reports to the Council during my audit. In particular, my Annual Governance Report, which included my report on Use of Resources. The report identified areas where then Council can continue to improve in its preparation of accounts and how it uses its resources.
- 22 There are no specific recommendations I want to draw to the attention of Council Members in this letter.

# 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.**

- 23 I issued an unqualified opinion on the Council's accounts on 30 September 2009, thereby meeting the deadline set within the Accounts and Audit Regulations 2003. In my opinion the accounts present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for that year.
- 24 Before giving my opinion, I reported to those charged with governance, in this case the full Council, on the issues arising from the 2008/09 audit.

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## Accounting issues

- 25 The draft accounts were approved on 26 June 2009, prior to the 30 June deadline specified in the Accounts and Audit Regulations 2003.
- 26 In general, working papers supporting the accounts were of a good standard and responses to queries and requests for additional information were promptly dealt with by finance staff. There is still some scope for further improvements next year and these have already been discussed with officers.
- 27 Our audit identified some material classification errors and uncertainties in the financial statements. In addition, a number of amendments were made to ensure disclosures met the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2008. The amendments to the financial statements, however, did not impact on the financial position of the Council for 2008/09. However, the Council is reviewing its Medium Term Financial Strategy from 2009/10 for the impact of the adjudication on claims against the Council in relation to building works undertaken at Newmarket Leisure Centre.
- 28 I did not identify any significant weaknesses in your internal control arrangements and the Council's annual governance statement was in accordance with requirements. The Council's internal audit team generally comply with the requirements of the CIPFA Code. The financial systems underpinning the accounts continue to operate with generally sound controls in place, but with room for improvement.
- 29 I presented my Annual Governance Report and Addendum to the Council on 30 September 2009 which included the full details of the issues arising from our audit of the accounts. I reported all adjusted errors that my audit had found. There were no unadjusted errors to report.

### Certification of claims and returns

- 30** We certify the Council's claims and returns on the following basis.
- Claims below £100,000 are not subject to certification.
  - Claims between £100,000 and £500,000 are subjected to a reduced, light-touch certification.
  - Claims over £500,000 are subjected to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment leads to a reduced certification approach for these claims.
- 31** The Council's housing benefits and council tax benefits claim required amendment prior to certification and a qualification letter was issued on several matters arising. The reasons for the amendments and the qualifications were agreed with officers but were not significant. Therefore there are no matters to draw to your attention in this letter. Improvements to strengthen the Council's arrangements for the preparation of housing benefits and council tax benefits claims and returns have been agreed with officers at Anglia Revenues Partnership.

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### International Financial Reporting Standards

- 32** The national timetable for the implementation of International Financial Reporting Standards (IFRS) means that these will be first applied in the 2010/11 financial year. However, comparative figures for the 2009/10 financial year will be required.
- 33** Applying IFRS will have significant implications for the way in which local authorities prepare their annual financial statements. The Council has a detailed project plan in place, with clear roles and responsibilities, and progress will be reported regularly to Members. The intention is to restate the 2008/09 financial statements during the early part of 2010.

# 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

- 34** 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.
- 35** 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.
- 36** The Council's use of resources theme scores are shown in Table 1.

**Table 1** Use of resources theme scores

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

- 37** The key findings and conclusions for the three themes, and the underlying KLOE, are set out in my Annual Governance Report. The key theme findings are summarised below.

## Value for money and use of resources

### Managing finances

- 38 The Council is performing adequately in the management of its finances.
- 39 The Council has sound processes in place to enable it to plan its finances to deliver its strategic priorities and secure financial standing. A comprehensive Medium Term Financial Strategy (MTFS) links to balanced budgets, takes account of savings plans and is aligned to priorities, risks and financial planning. In its use of resources, the Council has moved investment away from lesser to higher priorities, but now needs to assess the impact of its actions. The Council is completing full Equality Impact Assessments on new and revised policies. In addition, the Council needs to consider modelling different planning assumptions for key balances, cash flows and resource requirements in support of the MTFS.
- 40 The Council has a track record of achieving efficiencies but is actively developing its methodology and is taking steps to develop and understand its costs in further detail. The Council uses partnership working to achieve efficiencies and securing value for money. The Council is using its programme of VFM reviews to analyse cost information across its range of services. All service areas will be reviewed by December 2009 and outcomes will need to identify whether improved efficiency has been delivered, especially in high cost service areas. The Council's total expenditure on services per head of population has reduced from 2007/08. However, the Council is still above average when compared to other district councils and CIPFA nearest neighbours. The Council has yet to quantify the effects of local circumstances on the comparative cost of services.
- 41 The Council's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people. Good budget monitoring resulted in a reported underspend of £10,000 on 2008/09 committee budgets. Members and officers review financial information at joint committee meetings for the Council's main partner, Anglia Revenues Partnership (ARP) and observe the financial performance of the Leisure Trust. Although the impact on council finances is less clearly documented, joint meetings between members and Trustees are in place and variances are also identified and sanctioned/corrected via the Council's Performance and Audit Committee. The Council has established an Environmental Management Group to help reduce the Council's environmental footprint, but actions have yet to be assessed for impact. I issued an unqualified audit opinion on the financial statements, but officers had to adjust the accounts for some material errors and uncertainties.

### Governing the business

- 42 The Council is performing well in how it governs its business.
- 43 The Council has good arrangements to commission services, tailored to local needs, which provide value for money for local people. The Council seeks to engage the community in procurement decisions and ensure corporate priorities overlap those of Suffolk-wide partnerships. There is scope for more extensive consultation and for obtaining comments from all community groups on its actions. The Council is utilising technology to improve value for money, customer service and access. The Council is improving services through redesigning systems. The Council has a programme of service reviews to identify service improvements and efficiency savings. More work is needed to review options for delivering efficient services through joint commissioning and collaboration.
- 44 The Council has strong performance management arrangements. The Council has formalised responsibilities for data quality. Periodic checks are carried out on individual systems and source data for a sample of high risk performance indicators. The Council monitors and challenges performance against National Indicator targets, although scope exists for improving information on diversity and equality issues. Partnerships are effectively performance managed and learning is used to drive improvement. Performance reports focus on outcome measures and track progress on how the Council is delivering against its key corporate priorities. Formal user feedback and complaints are used to improve services. The annual performance plan sets out local, regional and national targets for the next year, which then feed into service plans, team plans and individual targets which are agreed through the appraisal process.
- 45 The Council promotes and demonstrate the principles and values of good governance, particularly in partnerships. The Corporate Plan 2008-12 sets out the Council's vision, based on four values; clean, green, safe and prosperous, and seven priorities. The role of the Standards Committee has been publicised and provides advice, training and assistance to Councillors. The Council has agreements in place which ensure appropriate governance arrangements for its major partnerships, through Joint Committees to which the Council appoints Members. The Council commissioned Norfolk County Council to carry out a review of ARP and uses a partnership assessment tool to conduct annual partnership assessments. Appropriate information is shared with partners in a timely manner and the Council is proactive in developing Local Area Agreement aims and targets into its service planning. The Council has yet to disclose Member and senior officer expenses to enhance transparency of reporting.

## Value for money and use of resources

- 46 The Council manages its risks and maintains a sound system of internal control. Risk management has developed during 2008/09, but would benefit from more formal reporting and evaluation of partnership risks. The Council has investigated issues from the Audit Commission's National Fraud Initiative and has arrangements to prevent and detect Housing Benefit fraud. The revised March 2009 Anti-Fraud and Corruption Policy and Whistleblowing Procedures have been discussed with all staff, but their impact has yet to be evaluated. The Council is transparent in publishing almost all Internal Audit reports in full. Standing orders, financial instructions and delegated powers are in place and Internal Audit generally comply with the CIPFA Standards. Internal audit should consider the effectiveness of further enhancements to risk-based audit planning process, complete a strategic Audit Plan to Members, and provide an audit opinion in support of the Annual Governance Statement based on the timely completion of all audit reports.

## Managing resources

- 47 The Council is performing well in the management of its workforce.
- 48 The Council has an effective strategic approach to workforce planning, organisational change and people management. The Workforce Plan provides a detailed picture of the workforce and identifies future challenges. The Council has taken steps to address recruitment and support professional development in areas of potential occupational shortages. The Workforce Plan is supported by an action plan, which has addressed several issues including the aging profile of workforce. The Plan is currently being refreshed to reflect the change in economic conditions. Service plans are used to inform workforce planning and demand for the medium term is profiled alongside budgets and service development and plans address future needs.
- 49 The Council has good arrangements to manage organisational change. The Council has provided change management training and staff are involved in VFM reviews of their service. Effective two-way communication has achieved voluntary staffing reductions, with the Council using a range of methods to communicate with staff. The Council needs to use post-implementation reviews to assess the effectiveness of change programmes and the degree of consultation with staff.
- 50 The Council has a well established approach to people management. There are robust Human Resources policies and all staff receive equality and diversity training. Level 2 of the Equality Standard has been achieved. Staff satisfaction rates are good, with 85 per cent of staff stating that 'I enjoy my job'. The workforce is broadly representative of the community with improvements made such as an increase to 25 per cent of top earners who were women as at March 2009. The Council has implemented the findings from its Equal Pay Audit and offers opportunities for flexible working, eg part-time and home working, and is introducing a modern working policy. Improvements include increasing the take up of attendance at training sessions by Members, reviewing the reasons why there is a low percentage of top earners who are female and no top earners with a disability or from minority ethnic groups and obtaining and using customer feedback from service users across different community groups to inform future training needs.

**VFM conclusion**

- 51** 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.
- 52** Based on the Use of Resources assessment, which was linked to the criteria set out above, I was able to issue an unqualified conclusion, stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Financial standing

- 53 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams.
- 54 There are further challenges for policy priorities where patterns of demand for services are changing together with population and demographic changes. I have reflected on the wider environment, specific issues and risks and the Council's response.
- 55 Over the past year, public sector bodies have learnt more about the nature and severity of the recession. In particular, the recession is much deeper than first anticipated and the repercussions will be felt by communities and individuals for some time to come. Across Suffolk, public sector bodies forecast that budgets will reduce by between 25 per cent and 33 per cent over the next ten years.
- 56 In addition, there have been ongoing uncertainties with local government structures across Suffolk. During 2008/09, the Boundary Committee reviewed the structure of Local Government in Suffolk and announced that it was consulting on further draft proposals for new Unitary Local Government in Suffolk. This was delayed by a judicial review challenging whether the consultation process was lawful. A recent Court ruling has found in favour of the Boundary Committee, leaving a way forward for the review to recommence.
- 57 The Council are playing an active part in a Suffolk wide response to the economic downturn and the uncertainties caused by delay to consultation, challenge and process for local government review. Leaders across Suffolk public services are developing a new strategic direction to transform and redesign public services to reduce the cost of the total public sector whilst giving local people the opportunity to help themselves (building social capital).
- 58 Good progress has been made. All leaders and chief executives across Suffolk public services are committed to closer collaboration with central government, health, police and voluntary sector, redesigning services from a customer perspective irrespective of organisational boundaries. Existing partnership working and shared service working will be expanded where there is a clear case to do so and across Suffolk, Councils are now looking at best ways of sharing senior officer teams and services. To recognise that more needs to be done with less, a 'Counting Suffolk' project is underway which looks at where the public sector spends its money to help devise the right solutions for redesigning services in the future.

- 59 All of this work is underpinned by a 'Lives we lead, Leaders we need' project to ensure there is commitment at political and strategic level, through a leadership collaborative, to different ways of working across the public sector in Suffolk. The 'Lives we lead' project is a forerunner to the Total Place initiative being piloted across the public sector. There are four themes which Suffolk Leaders are taking forward which are helping people to help themselves, connecting communities, demonstrating Suffolk's aspiration and shrinking public services through collaboration.
- 60 At an organisation level, the Council also recognises that it needs to keep its own house in order and will have to make difficult decisions about future priorities for funding and spending. The Council is responding to this challenge; the medium term financial strategy actively considers the impact of the economic downturn and addresses the funding shortfalls identified. The implications of this are understood and the challenges faced are being acknowledged and acted upon.
- 61 Along with other councils, Forest Heath has worked hard this year to support businesses and people made vulnerable through loss of income. It has provided more financial support to the voluntary sector to work with local people giving them advice and guidance. It pays invoices as quickly as it can. With partners, it has held a 'Jobs Fair' in Brandon and economic summits in market towns and has set up training sessions to give people skills to gain jobs.
- 62 Though the economic downturn is presenting specific issues and risks to the Council, I am satisfied that it is taking appropriate steps to respond to this. It will be key for the Council to manage risk in respect of its capacity to maintain sound financial management, governance and service delivery in a period of significant change. We will continue to monitor the outcome, impact and the Council's response in this key area. I will consider this closely when assessing how the Council makes effective use of resources during my 2009/10 audit.

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# Audit fees

63 I am currently revisiting our fee assumptions to confirm whether I have been able to deliver my audit programme within the fee that I planned. My proposed audit fee is shown at Table 2.

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**Table 2      Audit fees**

|                              | <b>Proposed</b> | <b>Planned</b>  | <b>Variance</b> |
|------------------------------|-----------------|-----------------|-----------------|
| Financial statements         | £70,750         | £70,750         | £0              |
| Use of resources             | £25,500         | £15,960         | £9,540          |
| Data quality                 | £4,290          | £13,830         | (£9,540)        |
| Whole of government accounts | £2,650          | £2,650          | £0              |
| <b>Total audit fees</b>      | <b>£103,190</b> | <b>£103,190</b> | <b>£0</b>       |

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## Closing remarks

- 64 I have discussed and agreed this letter with the Chief Executive and the Head of Finance, ICT and Audit. I will present this letter at the Performance and Audit Committee on 25 February 2010 and will provide copies to all Members.
- 65 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 3**

| Report  | Date issued    |
|---|----------------|
| Audit and inspection plan                                   | September 2008 |
| Opinion audit plan  | March 2009     |
| Annual governance report, including use of resources report | September 2009 |
| Opinion on financial statements                             | September 2009 |
| Value for money conclusion                                  | September 2009 |
| Annual audit letter   | December 2009  |
| Managing Performance and Organisational Assessment          | December 2009  |

- 66 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.

### Availability of this letter

- 67 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website

Neil Harris  
District Auditor  
December 2009

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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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## Copies of this report

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212, Fax: 0844 798 2945, Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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