

Annual Audit Letter

North East Derbyshire District Council

Audit 2008-2009

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	4
Value for money and use of resources	7
Managing performance & organisational assessment	9
Closing remarks	11
Appendix 1 – Use of resources key findings and conclusions	13
Appendix 2 – Action plan	18

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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. However, it wasn't possible to complete our work before the deadline of the end of September because we couldn't agree with the way that the Council's property had been valued. We identified a lot of errors in the draft statements which had to be changed and many ways in which the quality of the statements needs to be improved. We will be looking to see improvement next year.
- 2** I gave a part qualified value for money conclusion because we found that you did not have adequate processes in place to prepare your financial statements or to manage your budget during 2009/09. However, you have relatively low overall costs and have improved performance in many areas. You are continuing to achieve efficiency savings and are working with a range of partners to improve value for money in service provision.
- 3** Last year you did not manage to keep to your initial spending plans and had to use reserves to balance the budget. In the current year, you face further pressure on spending and are finding it difficult to keep within available resources. The outlook for the future identifies a continuing gap between spending plans and resources with balances already at a minimum. You are trying to address this but it is taking time and it remains a challenge to keep spending under control. You must monitor this closely and take any necessary decisions promptly.
- 4** Our assessment of you as an organisation is that you are performing adequately overall. You are tackling issues that local people recognise as priorities and eight out of ten people are satisfied with the area as a place to live. You have reduced anti-social behaviour. You have increased the amount of rubbish that is recycled but some local people are dissatisfied with the refuse collection service. The Council's contact centre is not performing well which can cause difficulties for people wanting to access services.
- 5** Recommendations are shown within the body of this report and have been agreed with you.

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

- 6 I issued an audit report including an unqualified opinion on the financial statements on 29 October 2009, a month after the deadline. The opinion was delayed because we encountered difficulties in carrying out our work on the notes to support the fixed assets figures. Material adjustments were made to the net book value of council dwellings and to a number of the notes supporting the fixed assets, revaluation reserve and capital adjustment account.
- 7 The other errors we identified in the accounts were not material either individually or in total and the majority have not been amended. However, Members need to be aware that correction of these errors/adjustments would have had the impact of reducing general fund balances by around £0.5m.

Material weaknesses in internal control

- 8 I did not identify any significant weaknesses in your internal control arrangements.

Accounting Practice and financial reporting

- 9 I considered the qualitative aspects of your financial reporting. I reported a number of issues in my annual governance report to those charged with governance. These included:
 - The independent review of the Council's approach to the impairment review for 2008/09 concluded that the consensus of evidence supported a level of impairment above that determined by the Council. The Senior Valuer considered the results of the review and updated his assessment of the level of impairment in 2008/09. This resulted in a material reduction in the balance sheet value of council dwellings as at 31 March 2009.
 - The Council's arrangements for preparing the financial statements have improved in 2008/09. However, there is still scope for further improvements, particularly in respect of preparing supporting working papers and providing prompt responses to queries raised during the audit process.
 - We queried the basis of several of the Council's bad debt provisions. The Council needs to ensure each of its bad debt provisions are based upon an appropriate assessment of risk. We will follow this up in 2009/10.

Financial statements and annual governance statement

- We were not able to establish that all the capitalised salaries satisfied the statement of recommended practice (SORP) requirements. If the criteria for capitalisation are not met, costs should be treated as revenue expenditure and charged to the appropriate income and expenditure account. We will be undertaking further work in this area as part of the 2009/10 audit.
- The Council had £3.58m unsupported borrowing undertaken when capital receipts were not realised in the year. No minimum revenue payment (MRP) was set aside in respect of this unsupported borrowing. The Director of Continuous Improvement considered that the commitment to repay unsupported borrowing as a matter of priority would have a more prudent effect than setting aside an MRP based either on a calculated percentage of the unsupported borrowing or linked to the relevant asset life. However the setting aside of an MRP relating to this borrowing would not prevent the Authority from early repayment but would in the interim demonstrate prudence. The realisation of capital receipts upon which early repayment is predicated has not occurred in accordance with estimates to date and indeed is what led to the need for this element of unsupported borrowing.

Financial position

- 10** 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.
- 11** You overspent your budget for 2008/09 by £1.65m, (a variance of 12.5% of the original budget) and used reserves to make up the shortfall. You are facing further financial challenges in 2009/10 and over the life of the medium term financial plan. In early September you reported to Cabinet budget pressures of £500,000 in 2009/10 along with an anticipated budget gap approaching £800,000 in both 2010/11 and 2011/12. The challenge is exacerbated by the fact that General Fund balances are now already at the Council's minimum level of £1m and you recognise that it is not an option to charge further expenditure against balances.
- 12** You reported to Cabinet on 25 November that you had taken action to reduce the projected general fund overspend in 2009/10 to approximately £160,000. However, potential additional restructuring costs of up to £250,000 were also identified in this report, which were not included in the projected overspend.
- 13** The estimated HRA year end position as reported to November Cabinet suggests a £190,000 overspend on the year. This is of concern when considered against the HRA balance of £711,000 as at 31 March 2009 and the expressed desire of members to build up HRA balances.

- 14** I have already made reference to the £3.58m of unsupported borrowing necessitated by delays in realising capital receipts. The original capital investment programme planned to use £3.79m of capital receipts in 2009/10. However only £0.15m had been received by November, with a total of £0.75m expected before year end. This will mean that the planned repayment of unsupported borrowing will not now take place in 2009/10.
- 15** It is likely that you will be required to make tough decisions on allocating resources for the foreseeable future because of the economic conditions. I will need to monitor your response and actions in this key area.

Recommendation

- R1** The Council needs to monitor delivery of the recommendations made in our annual governance report to improve the quality of financial reporting through the statement of accounts.
- R2** The Council needs to monitor the financial position closely and ensure that action is taken quickly to stabilise the Council's financial standing by bringing spending plans into line with available resources.

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

- 16** 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.
- 17** 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.
- 18** The Council's use of resources theme scores are shown in Table 1 below. 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

- 19** Although the overall theme scores under the revised use of resources framework are lower than some of the scores achieved in previous years, this does not necessarily reflect a deterioration in overall performance as the basis of the assessment has been revised. An 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.

- 20** Within the overall theme of managing finances, we have assessed your arrangements in respect of planning your finances effectively to deliver strategic priorities and to secure sound financial health as not meeting minimum standards. This assessment was informed by the unplanned overspend in 2008/09 and the ongoing financial health issues reported by the Council in early 2009/10.
- 21** The issues referred to earlier in relation to the financial statements were not identified in time to affect the use of resources assessment for the financial reporting KLOE but were taken into account in our value for money conclusion. However, the earlier timing of our use of resources assessment in 2009/10 means that they will form the basis of the financial reporting KLOE in the current year.

VFM Conclusion

- 22** 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.
- 23** I issued a qualified conclusion stating that the Council had adequate arrangements to secure economy efficiency and effectiveness in the use of resources, except that it did not put in place adequate arrangements for:
- planning its finances effectively to deliver its strategic priorities and secure sound financial health; and
 - ensuring its financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people.

Managing performance & 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

- 24 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.
- 25 The Council scores 2 out of 4 for managing its performance (the scoring mechanism is as for Use of Resources).
- 26 The Council is tackling issues that local people recognise as priorities. These are safe, healthy and respectful communities, a thriving local economy, a clean, green and attractive environment, decent and affordable homes for local people and excellent service from the Council.
- 27 The Council has reduced anti-social behaviour and has increased the amount of rubbish that is recycled. But the Council's contact centre is not performing well which can cause difficulties for people wanting to access services. Some local people are dissatisfied with the refuse collection service. The Council continually reviews the efficiency of its services to ensure they give value for money and it has succeeded in making savings without affecting services. The Council has also responded to the economic downturn by introducing several measures designed to support residents and local businesses now.
- 28 The Council is working with other organisations like the police and health services to reduce anti-social behaviour and improve people's health. Eight out of ten people are satisfied with North East Derbyshire as a place to live.
- 29 The recession has not hit North East Derbyshire as badly as some districts - it has not lost any major employers. However, the Council has set up a system to speed up the payment of benefits which is designed to encourage people to accept short-term employment. Often people are reluctant to take up temporary jobs because of the time it takes to reinstate benefits when the work finishes.
- 30 The Council has identified a lack of affordable housing and is developing long term plans to solve this problem although it is too early for there to be any benefit from these plans.

Overall Organisational Assessment

- 31** 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.
- 32** The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Derbyshire, Beverley Parker.

Closing remarks

- 33** I have discussed and agreed this letter with the Chief Executive, Director of Continuous Improvement and the Assistant Director of Corporate Improvement. I will present this letter to the Council on 4 January 2010 and will provide copies to all members.
- 34** 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

Report	Date issued
Audit Plan	May 2008
Annual governance report (including use of resources assessment)	September 2009
Auditor's report giving an opinion on the financial statements	October 2009
Value for money conclusion	October 2009
Organisational Assessment	December 2009

Audit fees

- 35** We were unable to deliver the audit within the fee agreed at the start of the year because of the additional work required to conclude the audit of the financial statements including the cost of obtaining advice from an independent valuer. An additional invoice has been raised to cover the work and the full effect is summarised below.

Table 3 Audit fees

	Planned	Actual	Variance
Financial statements and annual governance statement	80,159	92,949	12,790
Value for money	19,614	19,614	0
Total audit fees	99,773	112,563	12,790

Independence

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

- 37** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council's 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		
<p>Most of the processes in respect of getting the basics right are in place. In forming a rounded judgement however, this needs to be considered against the £1.3m unplanned overspend for 2008/09 which indicates that the anticipated outcomes from these processes were not delivered. The Council continues to achieve Gershon efficiency savings and works with a range of partners to improve value for money in its service provision. The Council has significantly increased its capacity in the finance section for 2008/09.</p>		
KLOE 1.1 (financial planning)		
Score	1	
VFM criterion met	No	
Key findings and conclusions		
<p>The Council has put in place many of the arrangements for integrated financial planning with links to strategic and corporate planning processes. However, the unplanned overspend for 2008/09 indicates that they have not got the basics right in term of overseeing financial performance. At current levels, with its reliance on support from reserves, the Council's expenditure is not sustainable into the medium term. It has put plans in place to address the issues raised but the Council will remain under significant financial pressure for the period of the current MTFP. The council's MTFP commits the use of the majority of any capital receipts to the repayment of unsupported borrowing which inevitably constrains its plans for further capital expenditure in medium term.</p>		

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Council has relatively low overall costs and has improved performance in many areas, for example, recycling and benefit processing. The Council monitors and reviews VFM. It has reduced its underlying budget through its managerial restructure and an administration review but is struggling to manage its expenditure within the current constraints. It operates vfm commissions to review areas of spend and performance. It has good plans and processes in place but has not yet provided significant evidence of outcomes.</p>	
<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>No - see page 9</p>
<p>Key findings and conclusions</p> <p>Most of the processes in respect of getting the basics right are in place. In forming a rounded judgement however, this needs to be considered against the unplanned overspend for 2008/09 which indicates that the anticipated outcomes from these processes were not delivered. There is more to do to improve the accuracy of the financial statements presented for audit. NB. This judgement does not reflect the full scale of the issues on the audit of the financial statements referred to on page 5 of this letter.</p>	

Appendix 1 – Use of resources key findings and conclusions

Governing the business

Theme score	2
Key findings and conclusions	
The Council is getting most of the basics right in terms of governing itself. The Council is performing strongly in some areas of data quality and in the focus area of ethical framework and culture. Evidence shows that the Council has good governance arrangements in place in respect of partnerships for the three partnerships identified as significant. The Council has reported significant progress in addressing internal control issues raised in 2007/08.	
KLOE 2.1 (commissioning and procurement)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council knows its communities and it shapes and directs service accordingly. The Council has used a statistical portrait of social, environmental and economic conditions in North East Derbyshire to develop a detailed vision of the area which will inform policy planning and prioritisation. There are examples of alternative models of service delivery being considered and shared services arrangements have been developed	
KLOE 2.2 (data quality and use of information)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council produces relevant and reliable data and works with partners to ensure the quality of partnership data. The Council ensures data security and compliance with relevant statutory requirements. Data Protection arrangements are sound.	

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>Overall the Council is getting the basics right though it is stronger in the areas of purpose and vision and ethical framework. Good governance is supported by the Council's constitution. The Council has a strong approach to diversity, knows its communities and so can target services to meet needs. A clear structure exists for cascading priority action plans through the organisation and for communicating upwards from neighbourhood level via community partnerships. Some strategic targets and action plans are still developing.</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>Overall the Council is getting most of the basics right. The Council has made progress in addressing internal control issues raised in 2007/08. The Council considers risks of strategic partnerships. However, the Council's risk management strategy does not include risk management of partnerships within its aims and objectives and the Council cannot demonstrate its partners have put in place risk management arrangements as part of setting priorities, policy making, financial planning and performance management.</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	
The Council is generally getting the basics right. Although there is clear evidence of policies and frameworks evidence in respect of outcomes and impact is an area for development. There is a suite of 3 year business plans which are supported by business improvement plans. These plans include analysis of skills and staff required to deliver the plans. These will need revising to reflect the impact of managing the financial position over the medium term.	

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
6	R1 The Council needs to monitor delivery of the recommendations made in our annual governance report to improve the quality of financial reporting through the statement of accounts.	3	Director of Continuous Improvement	Yes	Progress will be monitored by regular reports to the Audit and Corporate Governance Scrutiny Committee	January 2010
6	R2 The Council needs to monitor the financial position closely and ensure that action is taken quickly to stabilise the Council's financial standing by bringing spending plans into line with available resources.	3	Director of Continuous Improvement	Yes	The Council is working to address its financial position and has put in place a number of efficiency measures to ensure that the General Fund, HRA and Capital Programme are in line with budget at the year end.	March 2010

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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