

# Annual Audit Letter

South Staffordshire 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 as well as summary findings on your organisational assessment and managing performance from the Comprehensive Area Assessment Lead (CAAL).**

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## Overview

- 1 The Council performs well overall, has made progress in improving services over the last three years and has the staff, money and systems to improve further. Overall leadership is good, and councillors and officers work well together. Management arrangements have recently been changed and will need time to bed in before they work effectively. The Council has good ways of working and manages its money well, to make sure that its services are delivered well and its priorities can be met. It has a good improvement plan and is working hard to improve services year by year.

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## Value for money and use of resources

- 2 I am required to conclude on the value for money achieved by the Council in its use of resources. This is informed by our work on the scored Use of Resources judgement. I concluded that you had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources
- 3 I scored South Staffordshire 2 out of 4 in relation to our Use of Resources judgement. The Council manages its money well and understands where it can provide better value for money through working in different ways. It talks to local people about what they see as important, looks at the money it has to spend and plans activities based on this. Councillors and staff work well together to improve South Staffordshire district. People can find clear information about the Council's finances on the Council website.
- 4 The Council has a very good 'challenge' process, so that before money is spent on new services, there is a full discussion about whether it is the best course of action to take. This makes sure that money is spent to best effect. All new projects are managed to a project plan, so that there is good control over what is being done to make the new service effective. Some of the money saved has been used to improve front-line services such as benefits. Key improvements needed are:
  - demonstrating the linkages between strategic priorities and the improvement plan;
  - demonstrating outcomes from new initiatives;
  - producing a new Workforce Plan reflecting current priorities; and
  - responding robustly to the equality and diversity agenda.
- 5 The Council is currently taking action to improve its procurement arrangements following work undertaken by internal audit and ourselves.

- 6 More needs to be done in response to the Audit Commission's data matching initiative. Our data matching has identified over 700 instances where the Council needs to investigate whether it needs to cancel single person discounts for Council Tax, as the household appears ineligible for the discount. This should result in additional Council Tax income.

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### Managing Performance and Organisational Assessment

- 7 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.
- 8 South Staffordshire scores 3 out of 4 for managing performance. This is because it delivers its priority services to a good standard, at a cost which is lower than most other district councils. This gives good value for money, and the Council has the 4th lowest level of council tax England, whilst being 8th lowest for spending. However, some services are still relatively costly to provide, particularly the concessionary travel scheme and the benefits service. The Council knows this and is looking at other ways of providing these services so that costs can be reduced.
- 9 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 South Staffordshire Council is that it performs well overall.

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### Financial statements and annual governance statement

- 10 The accounts were prepared to a high standard within the closedown timescales laid down by the Accounts and Audit Regulations. Working papers were good and provided electronically which ensured an efficient audit of the financial statements. The accounts contained some errors, but not significant enough to impact on my audit opinion. I issued an audit report including an unqualified opinion on the financial statements on 29 September 2009.

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### Financial standing

- 11 Your financial plans anticipate using £3.85m of reserves to balance the books over the next five years. The reserves can only be used once and income is falling faster than expected. Given the changing economic climate and predicted reduction in government funding, you need to continue to monitor your financial position and identify savings to meet any shortfall.

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### Actions

- 12 We have summarised the key recommendations as follows.

## Key messages

<b>Recommendations</b>	
<b>R1</b>	Ensure weaknesses in the procurement arrangements have been addressed.
<b>R2</b>	Monitor the action taken in response to our Use of Resources findings.
<b>R3</b>	Continue to monitor the financial position and identify savings to meet any shortfall.
<b>R4</b>	Ensure action is taken to follow up the data matches for single persons' discounts that may have been claimed incorrectly.

# Value for money

I considered how well South Staffordshire District 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 South Staffordshire District 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.

The Comprehensive Area Assessment Lead (CAAL) reviews the capability of the organisation to achieve positive change in its community both now and in the future, this is called Managing Performance. An overall Organisational Assessment based on the use of resources and managing performance reviews is then made.

## Use of resources judgements

- 13** The Use of Resources assessment methodology has been changed for 2008/09 and is now more broadly based with a greater emphasis on outcomes than in previous years. This has made it a much harder test and means that it is not possible to make a direct comparison with scores achieved in previous years.
- 14** 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 expected.
- 15** 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.
- 16** The Council's use of resources theme scores are shown in Table 2.

**Table 1** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances How effectively does the organisation manage its finances to deliver value for money?	3
Governing the business How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?	2

## Value for money

Use of resources theme	Scored judgement
Managing resources How well does the organisation manage its natural resources, physical assets, and people to meet current and future needs and deliver value for money?	2

### Description of scores:

1. An organisation that does not meet minimum requirements, Performs Poorly
2. An organisation that meets only minimum requirements, Performs Adequately
3. An organisation that exceeds minimum requirements, Performs Well
4. An organisation that significantly exceeds minimum requirements, Performs Excellently

### Managing finances (performing well)

- 17** Sound and effective arrangements are in place for budget monitoring and forecasting information which has resulted in a small £95k underspend in 2008/09. There is a clear integration of financial planning with strategic service plans. Residents are involved in decisions to inform the Corporate Plan and Council priorities. Sixty-three per cent of performance indicators (PIs) have improved in the last three years and the pace of improvement has strengthened with 28 per cent of PIs now in the best 25 per cent of authorities. However, you need to demonstrate that strategic priorities are linked to the improvement plan.
- 18** Mobile benefits assessors with portable computers are now used to undertake remote claimant assessments. Partnership working is clearly assessed on the possible efficiencies to be generated, for example the Council has no leisure facilities of its own but and has come to joint use arrangements with local schools to enable their sports facilities to be used out of school hours by the community.
- 19** The old single glazed steel framed windows of the Council House have been replaced with PVCU double glazing. Not only will this significantly reduce fuel bills but it will also contribute to a reduction in the Council's carbon footprint.
- 20** Government savings targets for the year were exceeded and savings made through improved insurance arrangements.
- 21** The statement of accounts was prepared in line with statutory requirements and accompanying working papers were of a high standard, all areas of the accounts had electronic supporting working papers and presented in electronic format. The accounts presented fairly and provided a true and fair view.
- 22** All reports published on the website. The Annual Report which provides an objective and balanced view of the Council's performance contains key financial information and information on the Council's carbon footprint.

### Governing the business (performing adequately)

- 23** The Council has a clear focus on achieving value for money, which has resulted in low council tax levels. Efficiency savings were achieved whilst providing good quality services. The Procurement Strategy 2008/11 sets out the basic principles by which the Council will procure services and goods in order to achieve its strategic aims and objectives however I reviewed procurement arrangements and found a number of weaknesses, including: A lack of written quotations for all tenders; officers involved in the contract procurement process not always having been given relevant training; and Individual contract files are not always being kept in a secure and central location.
- 24** Data quality arrangements are strong and the information is clearly presented, supporting decisions made. The Council has implemented a number of information security practices and is making good progress in gaining Government Codes of Connection compliance. There is an active approach to system design, which ensures that performance management is integrated with financial information and aids the delivery of the strategic objectives and priorities. Good governance arrangements are in place with strong policies and procedures. There has been a positive report from the Local Government Ombudsman. The Council website gives clear telephone numbers to report allegations of fraud and corruption and gives information on how responses will be treated. In addition there is a comprehensive part of the site with information on people who have been investigated for fraud and action taken. However work on many initiatives is in progress and need time to deliver outcomes.
- 25** Risks, including partnership risks, are effectively assessed. Strategic risks are reported quarterly to the Audit Committee where the mitigation of strategic risks is discussed in some detail. However there is no clear link between strategic risks and the rest of the risk assessment process. All reports presented to Committees are reviewed by the Monitoring Officer and Director of Legal and Licensing for potential legal issues which provides an appropriate mechanism for the monitoring of any breaches that might occur. The Council has appropriate internal financial regulations in place through Standing Orders, Standing Financial Instructions and the Scheme of Delegation. Internal Audit has demonstrated that the Internal Audit department is compliant with the CIPFA Code for Internal Audit.

### National fraud initiative

- 26** The national fraud initiative data returns have been submitted in line with expected timescales and the quality of the data submitted was higher than the national average. Most significant high risk areas have been investigated with the exception of Council Tax reports on rising 18's and matching single persons' discounts with the Electoral roll, which is an area where many authorities have identified significant amounts of fraud. Our data matching has identified over 700 instances where the Council needs to investigate whether it needs to cancel single person discounts for Council Tax, as the household appears ineligible for the discount. This should result in additional Council Tax income.

## Value for money

**27** I am also concerned that 6 out of the 10 users for the authority did not complete the training module.

### Managing Resources (performing adequately)

**28** The Council has implemented a comprehensive management development and training programme which is competency driven, results focused and with performance management at the core. Skill development programmes for other staff have been implemented but not yet fully delivered or embedded. The competency framework has been applied from Senior Management Team down to Team Leader level and uses 360 degree feedback for validation. The Council has signed up to the West Midlands Public Service Skills Challenge Pledge for other staff levels and is working with Jobcentre Plus to deliver this. An action plan has been implemented, demonstrating the Council's commitment to raising skills and competencies in the workforce. All staff have annual appraisals with frequent one-to-one sessions. Sickness absence levels, at around 6 days average per person per year, are amongst the lowest in the country.

**29** The Council's assumptions about future workforce requirements are out of date and are being reviewed. Although the current Workforce Plan is soundly based, it does not reflect current strategic priorities and is currently being re-written. An action plan has been developed from the 2008 staff survey results and changes being made as a result. Organisational change has been minimal for the majority of staff in the last year and has only impacted on senior managers who have been supported through the Leadership and Change Management development programme. The Council recognises the need to improve its response to diversity and equality and is progressing towards compliance with current standards. Diversity and equality are now included in the induction programme for all new staff. Staff surveys produce good results and the application of equality impact assessments is reviewed by the Diversity Reference Group. Whilst good progress is being made, these improvements have yet to be embedded and integrated with the Workforce Development Strategy.

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### VFM Conclusion

**30** 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 KLOEs are the relevant criteria for the VFM conclusion at each type of audited body.

**31** I issued an unqualified conclusion stating that South Staffordshire had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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### Managing Performance and Overall Organisational Assessment

**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** The Council scores 3 out of 4 for managing performance (applying the same 1-4 scale as for the Use of Resources Judgement).
- 34** The 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 judgement for South Staffordshire Council is that it performs well.
- 35** The Council's Managing Performance and Organisational Assessment are being reported separately by John Cottrill, the Audit Commission's Comprehensive Area Assessment Lead for South Staffordshire. I have summarised the main conclusions below.
- 36** The Council performs well overall, has made progress in improving services over the last three years and has the staff, money and systems to improve further. Overall leadership is good, and councillors and officers work well together. Management arrangements have recently been changed and will need time to bed in before they work effectively. The Council has good ways of working and manages its money well, to make sure that its services are delivered well and its priorities can be met. It has a good improvement plan and is working hard to improve services year by year. Benefit services, for example, have improved since last year, reducing the time taken to deal with new claims from 32.5 days in 2007/08 to 18 days in 2008/09 and changed claims from 13 days to seven days.
- 37** The number of additional affordable new homes in the district this year has increased by 102, well above the target. Through its new arrangements of working more at a locality level, the Council will be able to identify local needs better and provide more tailored services where they are needed. Schemes in Quinton and Featherstone have already shown how this way of working can bring benefits to community life around the district.
- 38** South Staffordshire Council scores 3 out of 4 for managing performance because it delivers its priority services to a good standard, at a cost which is lower than most other district councils. This gives good value for money, and the Council has the 4th lowest level of council tax in England, whilst being 8th lowest for spending. However some services are still relatively costly to provide, particularly the concessionary travel scheme and benefits. The Council knows this and is looking at other ways of providing these services so that costs can be reduced.
- 39** There is a lot of partnership working in South Staffordshire, for example, leisure centres are run jointly with the county council. Another example is the dementia project, where the Council is working with the primary care trust to improve the health and well-being of older people. The Council has been recognised nationally as an example of good practice in the way it uses a partnership approach to meeting the needs of young people. Some specific examples of how this has worked are the development of schools sports, and engagement through the healthy schools partnership scheme, where all schools are now registered and 86 per cent are fully participating in health related activity. Also, the Bayleaf Project first started with junior school children planting seeds to improve their local environment, this has since grown into a multi-generational project involving all ages across the district.

## Value for money

**40** The Council is developing its leadership role well, especially at locality level. This is being helped by the councillors holding events in localities and neighbourhoods, and by using a 'speed dating' approach at some events, so that local people can talk to them about their views on local services and needs. A recent survey across the district showed that 65 per cent of people are satisfied with what the Council is doing. The Council is keen to increase satisfaction and is carrying out the survey at a more local level to gain a clearer understanding of what the underlying issues are.

### Key areas of focus in 2010

**41** Following this year's area assessment for Staffordshire, in the coming year the inspectorate bodies are likely to be focussing particularly on how the issue of inequalities within the county are being tackled. This work will focus particularly on addressing the health inequalities across Staffordshire.

**42** We will also continue to closely monitor how the changing housing needs across the county are being met, particularly in the light of the forecasted increase in the elderly population.

# Financial statements, the annual governance statement and financial standing

South Staffordshire Council's financial statements and annual governance statement are an important means by which South Staffordshire accounts for its stewardship of public funds.

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## Significant issues arising from the audit of the accounts

- 43** The accounts were prepared to a high standard within the closedown timescales laid down by the Accounts and Audit Regulations. Working papers were good and helped ensure an efficient audit of the financial statements could be undertaken.
- 44** During the audit, I agreed a small number of amendments to the accounts with the Director of Finance.
- 45** During the year the Internal Audit manager left the Council. After failing to recruit a full time replacement, the Council investigated other options and an agreement was reached with Lichfield District Council to share their Internal Audit manager. We undertook a review of Internal Audit during the year and found that in all key respects, they were compliant with CIPFA standards. Overall the Council has in place good arrangements to ensure internal controls over systems work well.
- 46** In October 2008, a number of Icelandic banks went into administration. A large number of councils and other public bodies were directly affected by the collapse of the Icelandic institutions. The Council did not have an investment at the time but and has reviewed its Treasury Management policies in order to ensure this area of activity continues to be kept under close control and to avoid exposure to unacceptable levels of risk.

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## Looking forward

- 47** Looking towards 2010/11, in line with other areas of the public sector the basis of the Council's financial statements will change from being on UK GAAP (Generally Accepted Accounting Principles) to IFRS (International Financial Reporting Standards).
- 48** I have monitored your progress on this and I am satisfied that you are on track to meet these challenges. You have set up a project team and have a clear timeline and have conducted a risk assessment. We have been engaged with the project and will continue to work alongside you to ensure a successful transition.

### Financial standing and the economic downturn

- 49** The Council reported net operating expenditure for 2008/09 of £14.640m, representing an underspend of £0.227m against budget. The underspend was due to savings in employee costs of £0.208m, the movement in specific reserves of £0.303m and increases in income totalling £0.335m (primarily recycling credits income, Business Growth Initiative grant and investment income). These underspends were partially offset by additional concessionary fares expenditure of £0.209m, shortfalls in income from planning of £0.267m and an increase in payments for the use of leisure facilities shared with schools of £0.095m.
- 50** 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 councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 51** Although expenditure in 2009/10 is in line with budget, income has fallen mainly as a result of lower interest rates and building related services. As a result you expect to have a shortfall of £0.183m that will have to be met from your reserves, in addition to that planned in your financial strategy.
- 52** The Council has recognised the current economic pressures in its medium term financial strategy which is now forecast for the next 5 years. This predicts that expenditure will exceed income and reserves will need to be used to meet this shortfall. These can only be used once. Given the changing economic climate and predicted reduction in government funding, you need to continue to monitor your financial position and identify savings to meet any shortfall.

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### Certification of grant claims and returns

- 53** We have certified three grant claims and returns for the financial year 2008/09. All claims were submitted for audit before the specified deadlines. The claims were supported by good working papers, although there was a need to undertake additional testing on the Housing Benefits claim. In common with most authorities, the Housing Benefits claim was finalised with a qualification letter.

# Closing remarks

- 54** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee in February 2010 and a copy should be provided to all members.
- 55** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to South Staffordshire during the year.

**Table 2**

Report	Date issued
Audit Plan	June 2008
Review of Internal Audit	April 2009
Governance Report	September 2009
Opinion on the Financial Statements	September 2009
Annual Audit Letter	December 2009

- 56** South Staffordshire District Council has taken a positive and constructive approach to our audit. I wish to thank the staff for their support and co-operation during the audit.
- 57** I undertook the audit for the amount presented in our Audit Plan which was taken to the Audit and Risk Committee in June 2008.

**Table 3     Audit fees**

	Actual	Proposed	Variance
Financial statements and annual governance statement	66,458	66,458	0
Value for money and Use of Resources	25,614	25,614	0
Data Quality	7,425	7,425	0
Total audit fees	99,497	99,497	0
Non-audit work	0	0	0
Total	99,497	99,497	0

## Closing remarks

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### Independence

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

James Cook

Engagement Lead

December 2009

# Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Ensure weaknesses in the procurement arrangements have been addressed.					
5	R2 Monitor the action taken in response to our Use of Resources findings.					
5	R3 Continue to monitor the financial position and identify savings to meet any shortfall.					
5	R4 Ensure action is taken to follow up the data matches for single persons discounts that may have been claimed incorrectly.					

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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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