

Annual Audit Letter

Chesterfield Borough Council

Audit 2010/11



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Traffic light explanation
Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

- We identified three material errors in the draft accounts. None of the errors impacted on the Council's financial standing and all were amended prior to members adopting the accounts in September.
- Not all Members responded to requests to provide information on any financial transactions between the Council and any organisations with which they have a relevant relationship.

Audit opinion and financial statements

You can take assurance from the fact that I issued an audit report including an unqualified opinion on the financial statements on 23 September 2011.

- Officers continued to maintain a high standard of work in preparing the financial statements in what has been a challenging year with the implementation of the International Financial Reporting Standards (IFRS). The financial statements were supported by good quality working papers and officers responded promptly to any queries we raised during the audit.

Value for money

I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources on 23 September 2011.

- The Council has proper arrangements in place to secure financial resilience
- The Council has proper arrangements in place for challenging how it secures economy, efficiency and effectiveness.

Current and future challenges

Economic downturn and pressure on the public sector

All local authorities face increased financial pressure due to the economic downturn and reduction in central government funding over the coming years. Financial resilience will be essential for local authorities so that they can continue to deliver cost-effective services.

The Council has a good track record of delivering budget savings. The scale of the savings required in 2013/14 and future years means that delivering further savings will continue to be a priority for the Council. Cabinet considered a comprehensive report on 18 October 2011 which identified budget variances in the current year, highlighted potential future budget issues and updated the medium term financial forecast. The report recognised the challenging financial environment and projected future costs, income and savings where these were quantifiable. It also identified the uncertainty of financial projections beyond 2012/13 but made reasonable assumptions based on best available information in order to prepare for later years.

Because the scale of current central government grant reductions would have hit the council more severely than other authorities, Chesterfield BC currently receives Transition Grant as a form of financial safety net. However, this is a temporary measure and the Transition Grant will no longer be payable after 2012/13. This emphasises the importance of the Council's financial projections beyond that date. The October Cabinet report was very thorough and contained a detailed analysis of current and future costs, projections of income from each major source, the revenue impact of capital development and likely outcomes from the Council's Transformation Strategy and Lean Reviews. In addition to the better than anticipated financial outturn from the 2010/11 financial year, a significant contributor to the Council's future financial stability was the recent tendering of the refuse collection contract, which provides a saving of over £0.8 million each year.

By the regular monitoring and control of outcomes against projections and the prudent use of accumulated funds in the Budget Risk Reserve and the Invest to Save Reserve, the Council projects that the originally predicted deficit of almost £2 million by the end of 2013/2014 could be reduced to provide a small surplus. The Council has not provided for any growth in the projections and the report recommends that any potential growth should be targeted on priorities, prudent and sustainable.

One of the major challenges for the Council is local worklessness. The Council is responding to this in various ways, but most notably by progressing a number of major regeneration initiatives, including the Waterside development and the Northern Gateway development in order to provide a sustainable solution. However, the lack of available external funding is currently hampering progress. To address this, the Council is placing an increasing emphasis on the value of its involvement at Board level in the Sheffield City Region (SCR) Local Enterprise Partnership, and has recently secured Enhanced Capital Allowances with a view to attracting a major manufacturer to Markham Vale as part of the SCR Enterprise Zone.

Housing finance

Where local authorities still retain a housing stock, significant changes are planned for the financing of their Housing Revenue Account (HRA). On 1 April 2012, the Government is set to abolish the HRA subsidy system and introduce self-financing for council housing. This represents one of the most radical reforms of public housing policy for many years, and the effects will be far reaching.

Each affected Council needs to develop new long term asset management plans, identify investment needs and develop short, medium and long term funding solutions.

Chesterfield BC is using the Accounting Guide to Self Financing produced by the CIPFA Housing Panel to develop its response to the changes. The number of houses achieving the decent homes standard within the Councils housing stock is gradually increasing and progress has been made in producing a viable business plan. The completed business plan is programmed to be presented to full Council in February 2012.

IFRS

The Council has demonstrated that it has successfully managed the introduction of International Financial Reporting Standards (IFRS) through its production of the 2010/11 annual financial statements. The few minor residual issues outstanding are being addressed during the course of 2011/12.

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.

Overall conclusion from the audit

I issued an audit report including an unqualified opinion on the financial statements on 23 September 2011.

Officers continued to maintain a high standard of work in preparing the financial statements in what has been a challenging year with the implementation of the International Financial Reporting Standards (IFRS). The financial statements were supported by good quality working papers and officers responded promptly to any queries we raised during the audit.

The process of producing the statement of accounts for 2010/11 has been particularly complex due to the introduction of IFRS. One specific issue that many councils have struggled with is componentisation. The concept of componentisation is that items of property plant and equipment (PPE) are accounted for in terms of their individual significant components. This is intended to allow more accurate capital accounting when replacing a lift within a block of flats for example. The Council's accounting staff made notable progress on this significant change and have successfully componentised the records of the majority of the Council's PPE assets. At the end of September the records of only a few assets remained to be converted.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements. However, I do wish to bring to your attention the issue of members' responses to requests for confirmation of related party transactions.

Management representations, through the formal letter of representation, are required to confirm both the completeness of information provided regarding the identification of related parties, and the adequacy of related party disclosure within the financial statements. In order to comply with this requirement members are requested annually to provide details of any related party transactions which took place during the course of the financial year.

Despite the issue of reminders, when the Council's 2010/11 statement of accounts were finalised for approval by the Head of Finance at the end of June, 5 members had failed to respond and subsequent reminders were necessary until ultimately only one member return remained outstanding. As transactions between related parties may not be on an arm's length basis and there may be an actual, or perceived, conflict of interest; those charged with governance should ensure that such transactions are subject to appropriate approval procedures, internal controls and disclosure.

I am informed that arrangements have been put in place to ensure a full response to the annual request for member declarations of related party transactions going forward.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Criteria met</p> <p>The Council has a robust system for producing its medium term financial plans (MTFP) based on best available information at the time and incorporating sensitivity analysis where factors are beyond the Council's control. The Financial Planning Group (FPG) has continued to work on proposals to achieve affordable and sustainable budgets over the medium term. More recently the FPG has been extended on occasions to include all Executive Members in order to focus on formulating a budget saving strategy for the next few years. The Group has also been developing a new Transformation Strategy to help deliver the required budget savings through a systematic review of the whole organisation looking at how services are best delivered.</p> <p>The Council has a good track record of delivering budget savings. The scale of the savings required in 2013/14 and future years means that delivering further savings will continue to be a priority for the Council.</p>

Criterion

Key messages

The budget forecasts for 2011/12 and 2012/13 have been helped by the award of Transition grant (£1.2 million in 2011/12 and £0.8 million in 2012/13). The Transition grant in 2011/12 has helped to offset the £1.2 million reduction in Formula Grant. However, the medium term financial outlook will get progressively worse as the Transition Grant is phased out. The budget forecasts approved in March show deficits of £84,000 in 2011/12, £864,000 in 2012/13 and £1,875,000 in 2013/14.

The updated forecasts, as at 18 October 2011, show a much improved position, a projected £194,000 surplus in 2011/12, and deficits £109,000 in 2012/13 and £1.1million in 2013/14.

Overall the level of reserves and provisions at 31 March 2011 are £1.4 million above the revised budget forecast estimate for 2010/11. The additional transitional grant and better than projected budget outturn in 2010/11 and significant savings achieved through the recent tendering of the refuse collection contract have effectively provided a much firmer financial base than anticipated in December 2010 when the CSR was first announced.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Criteria met

In broad terms, the Council is not out of step with comparator authorities and areas of higher spend can be linked to well known issues such as concessionary fares and the high priority of healthy lifestyles impacting on culture and leisure spend.

As noted above, the Council has an ongoing process through the FPG which is aimed at addressing the projected annual deficits and providing the opportunity for further savings throughout the coming four years. The Group has also been developing a new Transformation Strategy to help deliver the required budget savings through a systematic review of the whole organisation looking at how services are best delivered.

The Council is not averse to considering alternative means of delivery of services in order to improve efficiency and effectiveness, as evidenced by their engagement with Arvato to provide a wide cross section of back office and customer facing services.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Head of Finance. I will present this letter at the Council on 14 December 2011 (after initial consideration by the Standards and Audit Committee) and will provide copies to all Council members.

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.

Report	Date issued
Annual Governance Report	23 September 2011

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.

Sue Sunderland
District Auditor
November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Scale fee	121,000	121,000	0
Non-audit work	NIL	NIL	0
Total	121,000	121,000	0

The figures above are the gross audit charges. The Audit Commission has separately provided a rebate totalling £9,557 in relation to the 2010/11 fees.

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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