

# Annual Audit Letter

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**Chesterfield Borough Council**

**Audit 2009/10**

**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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# Key messages

**This report summarises my findings from the 2009/10 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.**

## **Audit opinion and financial statements**

**1** You can take assurance from the fact that I issued an audit report including an unqualified opinion on the financial statements on 27 September 2010.

**2** From next year (2010/11) the Council will prepare its financial statements for the first time under International Financial Reporting Standards (IFRS). Implementation of IFRS in Local Government will be a major challenge for authorities and will require substantial preparatory work ahead of next year. Despite the hard work of officers during the year there has been slippage against the timetable and there is still much to be done. It is important that the Council continues to monitor progress over the next few months.

## **Value for money**

**3** I also issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources on 28 September 2010.

## **Current and future challenges**

**4** Across the country, councils face severe and long-term social and financial challenges over the next few years. District councils have already had to deal with reduced income from fees and charges and councils have in-year cuts in government grant from 2010/11 as well as the prospect of future cuts following the 2010 comprehensive spending review.

**5** The detailed impact of the spending review at a local council level has yet to be announced but the Council has taken reasonable steps towards identifying the potential effects of higher than originally anticipated grant reductions on its financial plans. The Council now faces the challenge of delivering the necessary savings while ensuring that short-term decisions do not undermine long-term opportunities and achievement of strategic objectives.

# 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.**

**I gave an unqualified opinion on the Council's 2009/10 financial statements on 27 September 2010, well within the statutory target date.**

## Overall conclusion from the audit

**6** I issued an audit report including an unqualified opinion on the financial statements on 27 September 2010.

**7** I reported the detailed findings from my audit of the Council's 2009/10 accounts in my Annual Governance report to the Standards and Audit Committee. Good quality working papers supported the draft financial statements and officers responded promptly to any queries I raised during the course of the audit. The accounts contained no material errors and one non-material, non-trivial error and a few disclosure errors which were amended.

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

## Readiness for IFRS

**9** From 2010/11 the Council will prepare its financial statements for the first time under International Financial Reporting Standards (IFRS). Implementation of IFRS in Local Government will be a major challenge for authorities and will require substantial preparatory work ahead of next year.

**10** During the year, I reviewed the Council's preparations. The Council has a project plan timetable in place for producing IFRS-compliant accounts for 2010/11 by 30 June 2011. However, the Council has yet to fully complete its assessment of its leases and other lease type arrangements to determine the appropriate accounting treatment for these. The Council is the lessor of a large and varied asset portfolio and the number of leases involved in this exercise is significant.

**11** I have some concerns about the impact of the work on leases on the overall timetable and the key challenges facing the Authority are:

- completing your assessment of all leases;
- restating 2009/10 balances on an IFRS basis as early as possible and no later than end of January 2011; and
- completing skeleton accounts and accounting policies for member approval before the end of the financial year.

**12** I will continue to monitor progress at the Authority and undertake a review of the restated balances once complete. At the same time, it is important that the Authority continues to monitor progress over the next few months.

## Recommendation

**R1** Monitor implementation of the IFRS work plan to ensure that the IFRS transition is smooth and timely. Determine IFRS accounting policies and ensure that these are adopted ahead of the 2010/11 financial statements being prepared.

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# 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.**

## **2009/10 use of resources assessments**

**13** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**14** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**15** I report the significant findings from the work I have carried out to support the vfm conclusion.

## **VFM conclusion**

**16** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.



17 This is a summary of my findings.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	Yes

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

19 In last year's letter we raised concerns about the impact of the concessionary fares funding arrangements on the financial health of the Council despite the robust financial management arrangements in place. Since then a national review of the transport special grant for 2010-11 has provided a further £1.8m funding which substantially addressed the funding gap within the scheme. In addition, the Council is likely to benefit from a national VAT legal judgement, which could provide a further £1m. As a consequence the current financial position has been stabilised, placing the Council in a better position to deal with the funding pressures arising from the Comprehensive Spending Review (CSR).

20 My work during the year I also identified areas where the Council's value for money arrangements have improved. In particular, the Council has implemented a new performance framework. The new arrangements involve the use of performance clinics and shift the culture away from purely measurement and reporting to using measurement as a management tool. The comprehensive implementation of these new arrangements should take the Council forwards and enable clear evidencing of outcomes in the future.

21 There have also been improvements in the Council's governance arrangements to align the role and responsibilities of Lead Members with changes to the Corporate Management Team and Council restructure.

**22** This is the first year that I have formally reviewed the Council's arrangements for managing its natural resources. I found that the Council has a good understanding of its use of natural resources in 2010 for sustainable infrastructure. It adopted an environmental charter in 1990 and effective arrangements to manage their use. The Council has a strong track record in this area and was shortlisted for the Municipal Journal awards and produced its first public report under the Eco-Management and Audit Scheme (EMAS) in 2005-06.

## **Approach to local value for money work from 2010/11**

**23** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**24** My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**25** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

# Current and future challenges

## Financial position

**26** Across the country, councils face severe and long-term social and financial challenges over the next few years. Demand for local services is growing and demographic change, particularly an ageing population, places increased pressure on local services.

**27** District councils have already had to deal with reduced income from fees and charges. Reduced economic activity has cut income from planning fees, rents, car park charges and capital receipts. Councils have in-year cuts in government grant from 2010/11 and the prospect of future cuts following the 2010 comprehensive spending review.

**28** The government plans to eliminate the structural deficit by 2015/16. Public spending will have to fall and councils will play a major part in helping to reduce the deficit. The October spending review will set the overall public spending levels for the period 2011/12 to 2014/15. The spending review will clarify where greater cuts are required and the timing of those cuts.

**29** For councils, the challenge will be to manage services as income from central government falls. There will be few opportunities to raise income from fees and charges until the economy strengthens and council tax levels may be frozen in 2011/12.

**30** While the Council's forecasts take account of some aspects of the national picture, some uncertainties remain about future funding levels. The Council faces the challenge of delivering savings now while ensuring that short-term decisions do not undermine long-term opportunities and achievement of strategic objectives.

**31** In July 2010, Cabinet received a report highlighting potential future budget issues and updating the medium term financial plan (MTFP). As the Cabinet report stated " The Council has already achieved efficiencies through delivering services in a different ways; outsourced (e.g. refuse collection, golf course management), joint working (e.g. building control, procurement and internal audit etc) and potentially through public/private partnerships (Corporate Services PPP) but the pressure on future budgets will require further transformational change. Such change will take time to implement and to deliver the anticipated savings, so work on these projects must begin early."

**32** On 16 November 2010, Cabinet received a further report setting out the key announcements of the Comprehensive Spending Review (CSR) on 20 October 2010 and further updating the MTFP. Future financial projections in that report reflected the announced front-loading of cuts and were based on reductions of 10.7 per cent in 2011/12, 6.4 per cent in 2012/13, 0.9 per cent in 2013/14 and 5.6 per cent in 2014/15. The report also identified current uncertainty in the transfer of funding for concessionary fares.

**33** The November report included the implications of budget monitoring variances identified in the current year and projected a deficit of £38,000 in 2010/11, a deficit of £945,000 in 2011/12 and a deficit of £1,121,000 in 2012/13. The report also identified a number of options to include in the future budget strategy and a Lead Member budget workshop has been planned in November 2010 to progress those and other potential options to address the projected deficits.

**34** The detailed impact of the CSR at local council level has yet to be announced but the Council has taken reasonable steps towards identifying the potential effects of higher than originally anticipated grant reductions on its financial plans.

## Recommendation

**R2** The Council should continue to monitor and respond to the impact of higher than anticipated grant reductions on its financial plans.

## Closing remarks

**35** I have discussed and agreed this letter with the Chief Executive and the Head of Finance. I will present this letter at the Standards and Audit Committee on 10 December 2010 and the Full Council meeting on 15 December 2010, and will provide copies to all members.

**36** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Annual audit fee letter	April 2009
Audit opinion plan	February 2010
Annual Governance Report	September 2010
Auditor's report giving an opinion on the financial statements	September 2010
Value for money conclusion	September 2010

**37** The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Sue Sunderland  
District Auditor

November 2010

# Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	79,600	79,600	Nil
Value for money	30,400	30,400	Nil
Total audit fees	110,000	110,000	Nil

## 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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **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 money, people and time.

## Appendix 3 Action Plan

### Recommendations

#### Recommendation 1

Monitor implementation of the IFRS work plan to ensure that the IFRS transition is smooth and timely. Determine IFRS accounting policies and ensure that these are adopted ahead of the 2010/11 financial statements being prepared.

<b>Responsibility</b>	Standards and Audit Committee
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<b>Priority</b>	High
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<b>Date</b>	March 2011
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#### Comments

#### Recommendation 2

The Council should continue to monitor and respond to the impact of higher than anticipated grant reductions on its financial plans.

<b>Responsibility</b>	Financial Planning Group and Head of Finance
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<b>Priority</b>	High
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<b>Date</b>	Ongoing
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#### Comments



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