

# **Annual Audit** **Letter**

**Charnwood 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.**

## **Audit opinion and financial statements**

**1** I issued an unqualified opinion on your financial statements on 23 September 2010.

**2** The draft accounts presented for audit contained two material errors that were corrected. Neither affected the general fund balance.

## **Value for money**

**3** I gave an unqualified value for money conclusion as you have demonstrated that you have adequate arrangements in place regarding the overall use and management of resources to deliver value for money.

## **Current and future challenges**

**4** The main challenge facing the public sector is the current economic situation and the resulting increase in pressure on public sector bodies. This arises from increasing demand for certain services and reducing funding streams.

**5** Your Head of Financial Services anticipates that the Council will face formula grant cuts of around 22 per cent in cash terms over the period 2011/12 to 2014/15 of which 11 per cent is expected in 2011/12. The MTFS predicts that the current rate of revenue expenditure would exhaust reserves by March 2015 but the Council would still have an annual deficit of £2.5 million. You are exploring options for reducing expenditure and the annual deficit.

# Financial statements and annual governance statement

**The financial statements and annual governance statement are an important means by which you account for your stewardship of public funds. I gave an unqualified opinion on your 2009/10 financial statements.**

## Overall conclusion from the audit

### Opinion

**6** I issued an unqualified opinion on your financial statements on 23 September 2010.

**7** The draft accounts presented for audit contained two material errors that were corrected. One error arose due to the incorrect treatment of asset revaluation surpluses and deficits; the other error related to the misclassification of collection fund cash flows within the Cash Flow Statement. Neither affected the general fund balance. My audit also identified a number of non-material errors and minor presentational errors.

**8** I have reported all matters arising from my audit to the Audit Committee. I have also brought all relevant issues to the attention of officers, to further improve the quality of next year's financial statements.

**9** I have been able to complete my audit within the agreed fee of £119,100.

### Accounting Practice and Financial Reporting

**10** You had an investment of £1 million in an Icelandic bank. Following the collapse of that country's banks, full recovery is still uncertain but officers expect to recover around 80 per cent, and an appropriate impairment loss of £210,000 has been charged to the general fund.

## Significant weaknesses in internal control

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

# 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 I have given an unqualified value for money (VFM) conclusion.**

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

**12** 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.

**13** 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.

**14** I report the significant findings from the work I have carried out to support the VFM conclusion.

## **VFM conclusion**

**15** 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.

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

**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
Workforce	Yes

**18** I have reported my conclusions on each of the relevant areas previously to the Council in my Annual Governance Report but the key findings are summarised below.

### Managing Finances

**19** Financial and corporate objectives and priorities are becoming more closely aligned through the strategic planning cycle with clearer criteria used to make decisions on revenue spending.

**20** Budget monitoring is generally sound and you have a good track record of managing spending within available resources.

**21** Understanding of cost and performance interaction is developing for some services and is increasingly used to inform and achieve planned efficiencies.

**22** Preparation of accounts is particularly good, with a strong team of accountants up to date with technical developments. There is modelling of scenarios in the MTFS but it is not sophisticated.

### Governing the Business

**23** At a service level the needs of the local population are broadly understood and communication and engagement with the community is embedded. However, strategic procurement is developing more slowly.

**24** Data quality arrangements are used to secure the production of relevant and reliable data. Comparative information is now being used to set performance in a broader context.

**25** The ethical framework is sound and the Council performs well in promoting the principles of good governance. A review of partnerships led to the production of an improvement plan and a Partnership Strategy in 2009. Effective risk management processes are in place to identify key business/strategic and operational risks. Risks arising from partnerships are identified but are not part of a joint register.

**26** Arrangements are good in minimising the risk of fraud and corruption. There is a good system of internal control supported by internal audit and the audit committee. Scrutiny is getting better, but there is little evidence of where it has made a difference.

### **Managing resources**

**27** Strategies and delivery arrangements to lessen the impact of your operations on natural resources are well established and producing good results. You prioritise actions to improve its performance in reducing carbon emissions and use of natural resources. A wide range of initiatives are in place.

**28** You have ISO 14001 accreditation for its environmental management system. An environmental aspects list identifies the impacts of each directorate and how they are controlled and monitored. An Environmental Management Programme sets out actions to negate significant environmental aspects/risks.

### **ALMO inspection**

**29** In reaching my value for money conclusion, I also took account of the results of the inspection of Charnwood Neighbourhood Housing, your arm's length management organisation (ALMO) carried out by the Audit Commission's Housing Inspectorate in January to March 2010.

**30** Charnwood Neighbourhood Housing (CNH) was providing a 'fair', one-star service, which has 'uncertain' prospects for improvement.

**31** There were a number of positive aspects to the services provided by CNH:

- comprehensive Information and enthusiastic staff;
- a customer-focussed repairs system;
- appropriate levels of support for victims and perpetrators of anti-social behaviour; and
- effective rent collection.



**32** CNH had recently improved a number of existing services and some new services had also been developed. Some difficult decisions had been made that enabled it to improve some areas of performance and effective financial management had led to savings, which were beginning to be reinvested in service delivery. Restructuring had increased capacity to deliver improved performance and customer satisfaction in some areas.

**33** But there were areas that require further improvement:

- Leadership and staff training;
- Accessibility of services and support for all customers;
- Timeliness and cost of repairs and adaptations; and
- Outcome-focussed strategies.

**34** A separate report for the Council reporting the findings was issued in May 2010.

**35** The Council and CNH jointly acknowledged that there was still work to be done to improve services to customers and achieve the two stars necessary to be able to attract decent homes funding.

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

**36** 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.

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

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

**38** 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

**39** The main challenge facing the public sector is the current economic situation and the resulting increase in pressure on public sector bodies, both from increasing demand for certain services and reducing funding streams.

**40** Following the Government's Comprehensive Spending Review (CSR), announced in October 2010, you have amended your medium term financial strategy (MTFS).

**41** CSR sets out overall public spending levels for the period 2011/12 to 2014/15. Your Head of Financial Services anticipates that you will face formula grant cuts of around 22 per cent in cash terms over the period of which 11 per cent is expected in 2011/12.

**42** The MTFS predicts that, at the current rate of revenue expenditure, reserves will be exhausted by March 2015 but you would still have an annual deficit of £2.5 million. You are exploring options for reducing expenditure and the annual deficit.

**43** The MTFS also recognises the need to build up the HRA balance from £38 per dwelling at March 2010 to £110 per dwelling by March 2013, through reducing costs and reducing rent losses through properties being empty.

**44** I will continue to monitor your responses and actions in this key area through my VFM audit work.

## International Financial Reporting Standards (IFRS)

**45** The 2010/11 financial year will be the first time that local government bodies will be required to produce accounts that are compliant with International Financial Reporting Standards. The Audit Commission has emphasised the importance of Members in reviewing and challenging the progress of implementation.

**46** My assessment in July 2010 indicated that the overall progress of the Council's plans to implement IFRS was good, particularly with regard to identification of contracts and arrangements containing leases. Since then officers have not identified any new operating or finance leases.

**47** Officers expect to be able to produce restated 2009/10 accounts by December 2010.

## Closing remarks

**48** I have discussed and agreed this letter with the Chief Executive and the Head of Financial Services. I will present this letter at the Audit Committee on 7 December 2010. Copies will also be provided to all members and the letter will be published on the Council's website.

**49** 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 Report on Certification of Claims and Returns	February 2010
Audit Opinion Plan	April 2010
ALMO inspection	May 2010
Annual Governance Report	September 2010
Opinion and VFM Conclusion	September 2010
Annual Audit Letter	November 2010

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

Neil Bellamy  
District Auditor  
November 2010

# Appendix 1 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.

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