

Annual Audit Letter

Chorley Borough 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 we have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion and financial statements

- 1 I issued an unqualified opinion on the Council's financial statements on 30 September 2009. The statements have again improved in quality.
 - 2 This is the first year that the closedown arrangements have been the responsibility of the Council's shared services arrangement with South Ribble Borough Council. We worked closely with officers in conducting our audit and the new arrangements for producing your accounts worked well.
 - 3 The Council's accounts submitted for audit were complete and contained no errors that affected the overall financial position. The changes made were to disclosure notes and to reflect late guidance on the likely recoverable amounts in respect of Chorley's investment in Icelandic banks.
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Value for money

- 4 I have assessed your corporate arrangements for securing economy, efficiency and effectiveness in the use of resources against the criteria specified by the Audit Commission. I issued an unqualified conclusion on the Council's value for money arrangements.
- 5 Our work on the new use of resource assessment places a much stronger focus on the outcomes achieved by the Council's actions. It represents a harder test than the previous basis of assessment which was more focussed on the arrangements in place to deliver positive outcomes.

- 6 The Council received an overall score of 4 for its use of resources which means the Council is performing excellently overall. The Council was deemed to be particularly strong, demonstrating innovative practices which are delivering positive outcomes for the local community in a number of areas. These include:
- the Council's use of activity based costing across the whole organisation, which is helping to deliver significant savings and improved services;
 - its approach to using a wide range of quality tested data to identify areas for investment which, together with a clarity of vision and focus, strong partnership working and effective member engagement are resulting in improved services in areas of need at a neighbourhood level; and
 - and its overall approach to workforce planning and management, which has resulted in a highly motivated, skilled and effective workforce which meets current and future needs.
- 7 The Council has investments in Landsbanki Island pf, (an Icelandic bank), totalling £2m and during the year I satisfied myself that the Council had acted reasonably in making those investments at the time. Latest guidance received in September 2009 indicates that 83 per cent of this investment may be recoverable although this is still subject to confirmation. The Council's Treasury Management arrangements have also been reviewed in light of the economic downturn to reduce the risk of potential future investment losses.

Comprehensive Area Assessment and Organisational Assessment

- 8 The Audit Commission and the other public service inspectorates introduced a new assessment framework during 2009, the Comprehensive Area Assessment (CAA). CAA is a new way of assessing local public services in England. It examines how well councils are working with other public bodies to meet the needs of the people they serve. It is a joint assessment made by a group of six independent watchdogs. Assessments will be made publicly available every year and will provide an annual snapshot of quality of life in the area. The first results will appear on a new [Oneplace](#) website which will be launched on Wednesday 9 December 2009. Our work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared draft findings with officers and he is due to formally report in December 2009. Alongside the CAA report, we will issue our organisational assessment which combines our judgements on your use of resources and managing performance assessments. Any issues arising will be discussed with you and planned into future years' audit and assessment activity.

Independence

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

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

- 10** I issued an unqualified opinion on the Council's accounts on 30 September. In my opinion the accounts present fairly Chorley's financial position and its income and expenditure for the year.
- 11** Before giving my opinion, on the 24 September 2009 I reported to the Audit Committee the key issues arising from the 2008/09 final accounts audit.
- 12** The Council prepared working papers to a good standard to support its financial statements and the transition to the shared services arrangement with South Ribble Borough Council worked well. The annual governance statement reflected our understanding of the Council's arrangements to ensure effective stewardship of public monies and the outcome of its review of their effectiveness.
- 13** A change was made to the accounts following receipt of late guidance from the Chartered Institute of Public Finance and Accountancy, (CIPFA), on the likely recoverable amounts in respect of the Council's investments in Icelandic banks. Issues identified during the course of the audit included a classification error within the creditors disclosure note and the need to add a disclosure note analysing government grants as required by the accounting standards. None of the changes made had any impact on the Council's reported outturn position.

Material weaknesses in internal control

- 14** I did not identify any significant weaknesses in your internal control arrangements.
- 15** During 2008/09 we undertook a detailed review of Chorley's Internal Audit function which we are required to undertake at least every three years. I concluded that Internal Audit meets the requirements of the CIPFA Code of Practice for Internal Audit and provides an effective service to management at the Council.

International Financial Reporting Standards (IFRS)

- 16** In March 2008 the Treasury announced that the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) from 2009/10 onwards. For local government bodies the first full year of application is the 2010/11 financial statements but the starting period for this (the transition date) is 1 April 2009. Local government bodies will be required to produce their 2009/10 Whole of Government Accounts return on an IFRS basis.
- 17** As part of my audit I have considered the Council's progress in preparing for the implementation of the IFRS. The Council has made a good start in its preparations for IFRS. Officers have identified the key risk areas for Chorley, undertaken an initial analysis to assess the work required and are in the process of pulling together all the information which will be needed in order to implement the IFRS requirements. Whilst there is still much work to complete, the Council is on track to achieve successful implementation by the stated deadlines.

Value for money and use of resources

I considered how well the Chorley 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

- 18** 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 at level 2.
- 19** 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.
- 20** The Council received an overall score of 4 for its use of resources which means the Council is performing excellently overall. The Council was deemed to be particularly strong, demonstrating innovative practices which are delivering positive outcomes for the local community in a number of areas. The Council's use of resources theme scores are shown in Table 1 below.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Strategic financial planning	3
Understanding of costs and performance	4
Financial reporting	3
Governing the business	4
Commissioning and procurement	3
Data quality and use of data	4
Governance	4
Risk management and internal control	3
Managing resources	4
Workforce	4

Managing finances

- 21** Financial planning is fully integrated with corporate priority setting, so that the priorities are invested in effectively. Engagement with local communities is strong, ensuring that priorities are based on a good understanding of the diverse needs of the community. Arrangements for financial planning in the medium term are effective and have enabled the Council to move resources to focus on neighbourhoods and into priority areas such as community safety, homelessness and affordable housing. Improved outcomes for the community are evident following such prioritisation, including a 28 per cent reduction in crime rates since 2005, reductions in the use of temporary accommodation and an increased customer satisfaction to 94 per cent. Financial plans have been updated to reflect issues arising from the current economic climate, including the impact of increased costs to the Council, together with increased support for local businesses.
- 22** Action taken by the Council has reduced the effects of the recession. Ninety seven new businesses have been established and 273 jobs created since 2008. Virtually all new businesses in Chorley are surviving for at least a year. Fewer shops are empty in the town centre and more people are now visiting the town. Unemployment is reducing and is below the Lancashire average. Average earnings are increasing and more 16 to 18 year olds have found education, employment or training positions in the past year.
- 23** The Council has investments in Landsbanki Island pf totalling £2m and during the year I satisfied myself that the Council had acted in accordance with its agreed policies in making those investments, and that those policies were in accordance with the relevant professional accountancy body's (CIPFA) guidance at the time. I am satisfied that the Council is taking appropriate action in terms of recovery, reassessing its financial position and reviewing its policies. The latest guidance received in September 2009 indicates that 83 per cent may be recoverable although this is still subject to change. The Council's Treasury Management arrangements have also been reviewed in light of the economic downturn to reduce the risk from potential future investment losses.
- 24** Chorley has a sound understanding of its costs and performance and performs well in achieving efficiencies in its activities, exceeding government set efficiency targets. It is recognised nationally for its innovative use of activity-based costing exercises which allow it to make meaningful comparisons with other councils. This has enabled the Council to identify and eliminate activities that do not add value to service delivery, Outcomes include better use of technology in waste management services improving response times whilst reducing costs, reduced benefits claim processing costs, significantly reduced central costs and releasing 17.5 administrative support staff into front line services. Value for money (VFM) reviews fully examine the rationale, efficiency, effectiveness, economy and impact of each service. Overall costs are low compared with other district councils with expenditure per head being well below the median and comparisons at a service level demonstrate excellent value for money for the outcomes being achieved.

Value for money and use of resources

Governing the business

- 25** The Council commissions and procures services effectively to deliver priorities and objectives in the most effective and efficient manner. This includes effective partnership working wherever possible to achieve maximum impact and obtain the benefit of wider available resources. The needs of citizens and users are placed at the heart of service design through a business transformation programme to improve access to services, efficiencies and customer experience. The Council has a robust approach to procurement which reflects the national procurement strategy. The management of contracts is strong, resulting in improved outcomes for example in waste management and leisure contracts. Good progress has been made on shared financial and assurance services with a neighbouring council which is delivering financial savings and providing access to wider expertise.
- 26** The Council performs strongly in producing reliable, relevant data and information to support decision making and manage performance, including making best use of partnership data. Excellent use is made of this information to identify and target issues for specific action and investment, resulting in improvements in areas of most need at a borough and neighbourhood level. Improvements have been achieved in areas such as crime rates and anti-social behaviour, teenage pregnancies, and homelessness. Additionally, weeks of action held at neighbourhood level have resulted in more targeted improvements at a local level for example improved cleanliness of the local environment and reduced criminal activity in targeted areas.
- 27** The excellent relationships between officers and members translate into service delivery and improvement for local communities. Member development is strong, enabling members to represent effectively their communities' interests and to provide effective challenge within the Council. A clear culture around standards of conduct for officers and members exists, led by senior officers and members, which is applied across the Council's partnerships and recognised by all staff.
- 28** The Council proactively manages its key risks in achieving its priorities including effective monitoring and management of its partnership agreements. It has identified specific risks to delivery during the year and taken action which has reduced those significantly and in some cases has resulted in much improved services following their re-design, for example the homelessness service.
- 29** Anti-fraud and corruption arrangements are effective, including a pro-active plan following clear identification of fraud and corruption risks across the organisation. A strong anti-fraud stance is taken, resulting in for example, successful prosecutions and sanctions for benefit fraud being well in excess of the North West average. The internal control arrangements remain sound. The Audit Committee provides effective challenge on issues of internal control and ensures that recommendations made by internal audit are followed up and implemented.

Managing resources

- 30** The Council performs strongly in planning, organising and developing its workforce. It has a skilled and productive workforce that is enhanced with a range of partnerships and shared services.
- 31** Robust performance management, complemented by a competency framework and development opportunities, allow staff to realise their full potential and be fully effective. A rigorous system of attendance management to monitor and manage sickness absence has further reduced absences to 7.23 days per employee in 2008/09 with action being taken to ensure this positive trend continues.
- 32** Organisational change is managed effectively with good staff engagement. Following a period of significant change within the Council including redundancies, the Council was ranked second, with particular strengths in leadership and teamwork, in the Times' list of best councils to work for.

VFM conclusion

- 33** 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 specify each year which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 34** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Closing remarks

- 35** I have discussed and agreed this letter with the Chief Executive and the Assistant Chief Executive (Business Transformation). I will present this letter at the next meeting of the Audit Committee and will provide copies to all committee members.
- 36** 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	June 2008
Audit Opinion Plan	June 2009
Annual Governance Report	September 2009
Use of Resources Report	November 2009

- 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.

Fiona Blatcher
Engagement Lead
December 2009

Appendix 1 – Audit fees

- 1 We agreed an audit fee for 2008/09 with the Council in June 2008. We subsequently took our audit opinion plan to the June 2009 Audit Committee where we outlined the need to undertake extra audit work in relation to the Council's investment in Icelandic Banks. As a result, we needed to increase our audit fee slightly by £1,800. This increase was agreed with the Assistant Chief Executive (Business Transformation).

Table 3 Audit fees

	Actual £	Proposed £	Variance £
Total audit fee	110,800	109,000	1,800
Total inspection fee	6,000	6,000	nil
Total fees	116,800	115,000	1,800

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.

Copies of this report

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