

# Annual Audit Letter

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**Chorley 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 (pages 3 to 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 9).**

## **Audit opinion and financial statements**

**1** My 2009/10 audit is now complete and I concluded the accounts give a true and fair view of the financial position of the audited body and its spending and income for the year in question. I issued an unqualified opinion on 30 September 2010.

## **Value for money**

**2** I am required to assess whether the Council has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. I concluded that the Council has adequate arrangements in place and I issued an unqualified VFM conclusion on 30 September 2010.

**3** The Council has continued its track record of high performance. During 2009/10, in what has been a particularly difficult economic environment, the Council has continued to deliver significant efficiencies whilst achieving large increases in customer satisfaction scores as shown in the 2010 Place Survey.

## **Current and future challenges**

**4** Like all councils, Chorley faces significant financial pressures. The full extent of necessary spending cuts resulting from the Autumn 2010 spending review and allocation of grant funding from 2011/12 and beyond needs to be assessed. The Council has already started to plan to address the potential implications of the spending review and will need to continue to review priorities, service standards and how services are delivered as the extent of those cuts become clearer.

# 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 30 September 2010.**

## Overall conclusion from the audit

**5** The issues I identified from my review were primarily of a minor nature and involved mainly classification issues in the disclosure notes. The changes made to the accounts had no impact on the overall financial position of the Council. I reported in detail the results of my review to the Council's audit committee on 30 September 2010.

**6** The financial statements were produced ahead of the target date of 30 June 2010. The working papers supporting the financial statements were comprehensive and of a good standard.

**7** I reviewed the annual governance statement and concluded the disclosures meet the requirements of proper practices specified by the Chartered Institute of Public Finance and Accountancy and is consistent with the information I am aware of from my work on the financial statements and my other work.

**8** Following the completion of my audit I issued an unqualified opinion on 30 September 2010.

## Internal control

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

## IFRS in local government

**10** The 2008 Budget included an announcement that all public bodies would follow international financial reporting standards (IFRS). Local authorities will prepare financial statements based on IFRS for 2010/11.

**11** A failure to achieve successful transition to IFRS would cause significant reputational damage to individual local authorities and the local government sector as a whole. Poor preparation will heighten the risk that accounts will not meet requirements and so attract a qualified auditor's opinion or be published late. At a practical level, there is a risk that extra and unnecessary costs will be incurred.

**12** I have liaised with key finance staff on the key changes required and the plans in place to address them. I have also undertaken a number of surveys on the Council's progress towards IFRS. I assessed the Council as making good progress and on track to deliver against its timetable.

## **Investment in Landsbanki**

**13** The Council invested £2 million Landsbanki in September 2008. Landsbanki went into administration in October 2008. It is currently estimated that Chorley will eventually recover 95 per cent (£1.965 million) of the amount due at its date of claim of April 2009. This amount included the principal and accrued interest of £68,000. It is expected the money will be recovered in instalments up to 2018.

**14** This estimate of the amount Chorley will recover assumes that local authorities will be classed as priority creditors. This will be decided by the Icelandic courts and the judgement expected late in 2011. If priority status is not confirmed it is estimated that recovery will fall to an estimated 38 per cent (£0.786 million).

## **National Fraud Initiative**

**15** The Audit Commission plays an important role in the fight against fraud. It runs a data matching exercise every two years to help detect and prevent fraud: the National Fraud Initiative (NFI). The total fraud, overpayments and errors detected across the country in the latest completed exercise covering 2008/09 amount to £215 million. Since the exercise began in 1996, cumulative national savings total £614 million.

**16** The NFI is a data matching exercise comparing information held by different organisations, including some from the private sector, to identify potentially fraudulent claims and overpayments. Examples of data matching undertaken include pension payments being checked to records of deceased persons and council tax records being matched to the electoral register. The Council participates in this bi-annual exercise. Savings identified by the Council as part of this latest exercise, including estimated savings, amounted to:

- £63,993 for Housing and Council tax benefit;
- £52,543 in respect of Single Persons Discount; and
- £19,231 of other savings.

# 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**

**17** 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.

**18** 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 vfm conclusion.

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

## **VFM conclusion**

**20** 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.

21 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

22 I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. I reported the findings of my work in relation to the VFM conclusion to members of the Audit Committee in my Annual Governance Report on 30 September 2010 and this is set out below.

## Managing Finances

23 The Council continues to manage its finances well. Financial planning supports the delivery of corporate priorities. This has enabled resources to focus on neighbourhoods and priority areas – such as business start-ups and community safety – leading to improved outcomes. The Council’s medium-term financial plans are based on realistic assumptions. It consults regularly with local residents and stakeholders to ensure their views are reflected when setting priorities and allocating resources. For example, an extra £60,000 has been allocated to street cleaning in the 2010/11 budget and council tax levels have been frozen.



**24** The Council has a thorough understanding of its costs and uses this to improve value for money. Its programme of value for money reviews continues to realise significant savings. Overall costs are below average when compared to similar councils, and Chorley identified another £525,000 in efficiency savings during 2009/10. The Council achieves service improvements and maintains high performance while reducing costs. For example, it has cut support costs and invested in electronic enablement of service provision to provide easier access for customers. The revised senior management structure adopted recently plans to deliver savings of £500,000 in 2010/11 and beyond. The Council works well with partner organisations to make best use of combined resources and increase the impact of its work.

**25** Financial reporting provides management and councillors with timely, accurate and meaningful information. During 2009/10, the Council has continued to train staff on the use of financial information, improving their ability to make informed decisions or to challenge resource allocation.

**26** Chorley, in common with other public bodies, faces a difficult financial outlook over the coming years. The full extent of necessary future spending reductions will become clearer after the Autumn Spending Review and the settlement of revenue grant funding for 2011/12 and beyond. The Council needs to ensure that it effectively addresses these emerging issues.

## **Governing the Business**

**27** The Council has an effective approach to commissioning and procurement that is delivering positive outcomes for local residents. The Business Transformation Programme places the needs of citizens and users at the heart of service design – for example, the ‘circle of need’ project for older people now offers more services through a single contact point. The Council’s priorities are based on a good understanding of differing local needs, as demonstrated by work with young people at risk of alcohol-related harm. Good progress has been made on shared arrangements with a neighbouring council, including joint procurement. The combined community safety partnership enables joint resources to be targeted more effectively on problem areas, leading to cuts in crime. The Council reviews the competitiveness of its services and changes or eliminates functions that do not add value.

**28** The Council uses information effectively to support decision-making and improve performance. Performance management drives real improvements in outcomes for local people – for example the delivery of affordable housing. Regular performance reporting enables the Council to respond to issues and direct resources accordingly. The decision to provide the Homelessness service ‘in house’ has led to a significant improvement in performance. ‘Mosaic’ customer profiling information and partners’ data are used to address issues at a neighbourhood level and profiles of rural areas have been developed.

**29** The Council's high performance is reflected by high levels of customer satisfaction with 62 per cent stating they are satisfied with the way Chorley runs things (up 12 per cent from 2008). The 2010 Place Survey reported the percentage of people who agreed Chorley provides value for money increased by 16 per cent to 58 per cent.

**30** In 2009/10 the Council further strengthened its governance arrangements. Non-executive members now engage more in policy development and challenging the Executive. For example, a task and finish group has looked at affordable housing, developing an action plan that helped make 107 new affordable homes available during the year. Councillors engage well with communities through neighbourhood tours and weeks of action. Public satisfaction with the advice and support of members has increased. The Council has now achieved level 2 of North West Employers Member Development Charter. It continues to have a strong ethical framework and culture. Robust arrangements are in place for governing partnerships. The Council can show strong outcomes for the community through partnership working. These outcomes include the Crunch Brunch to support local people and businesses during the economic downturn, good community cohesion and falls in teenage pregnancies.

**31** It makes good use of performance information on key projects so that any potential risks do not adversely affect progress. For example, it has significantly reduced the number of households in temporary accommodation in recent years, thereby meeting its obligations under the Local Area Agreement and also saving £85,000 on bed and breakfast costs. The Council has a strong approach to tackling fraud. Internal Control continues to be effective.

**32** Chorley over recent years has effectively challenged and reduced its costs. However, the potential scale of the reductions in public sector funding is likely to require a fundamental review of the current scope of service provision and the associated cost levels. This will include, together with partners, considering different ways of delivering those services which are still considered to be necessary.

## Managing Resources

**33** During 2009/10, for the first time, we examined the Council's management of natural resources. The Council understands its use of natural resources and its impact on the environment. It is making good progress in reducing these through a climate change strategy and action delivery plans. Targets have been set to cut energy consumption by 20 per cent and to reduce business and fleet travel by 10 per cent. The Council's invest to save programme provides resources for installing energy efficiency measures. During 2009/10, the Council reduced carbon emissions from its key buildings, leisure centres and business mileage by 21.7 per cent. It is working well with leisure and property services partners to manage environmental risks.

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

**34** 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.

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

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

**36** 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

**37** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. There are implications for treasury management strategies and there are likely to be wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, in particular, pressures on income streams.

**38** The Council faces one of its toughest ever periods financially. In order to meet increasing demand from your local population, drive up quality and respond to rising expectations the Council will have to do more with its money. It is, therefore, inevitable the shape of some services will have to change.

**39** As the Council moves forward it will need to continue to develop robust arrangements to;

- ensure the resilience in Medium term financial strategies;
- deliver efficiencies and future plans;
- update treasury management strategies;
- assess the funding requirements and re-prioritise capital programmes;
- review income streams; and
- identify patterns of changing demand profiles and shift priorities accordingly.

## Closing remarks

**40** I have discussed and agreed this letter with the Chief Executive and the Director of Transformation. I will present this letter at the Audit Committee on 20 January 2011 and will provide copies to all members.

**41** 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
Audit Opinion Plan	March 2010
Annual Governance Report	September 2010
Opinion on the Financial Statements	September 2010
Value for Money conclusion	September 2010
Audit Letter	November 2010

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

Fiona Blatcher  
Engagement Lead

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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Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946