

Annual Audit Letter

Gedling 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 (page 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 7).**

Audit opinion and financial statements

1 I issued an unqualified opinion on your 2009/10 financial statements on 27 September 2010.

2 The financial statements presented for audit were free from material error and the arrangements to produce the financial statements were sound.

3 You are on track to produce IFRS-compliant accounts for 2010/11 by 30 June 2010.

Value for money

4 I concluded that you have put in place adequate arrangements for securing economy, efficiency and effectiveness in your use of resources and issued an unqualified value for money conclusion on 27 September 2010.

Audit fees

5 I was able to contain my fee for the audit to the level of £89,000 as agreed in the audit plan dated 15 June 2010. The detailed fee is reported in Appendix 1.

Current and future challenges

6 The economic downturn and increased financial pressure on the public sector continues to represent a significant risk to Gedling Borough Council. Based on the announcements of the Comprehensive Spending Review, it is likely that you could lose up to 26 per cent (£1.75m) of your government funding over the next four years.

7 All public sector organisations face similar challenges over the same period. The scale of the anticipated savings cannot be achieved in isolation and it is essential that you continue to work jointly with your partners to address the issues that this challenge presents. You will need to be mindful of the corporate and operational risks that may arise from the decisions that you or your partners take.

8 Historically you have demonstrated strong financial standing and an appropriate level of reserves. You recognise the need to maximise both the stability and flexibility offered by this position as financial pressure on public sector finances becomes more challenging. It is clear that your current Medium Term Financial Strategy (MTFS) does not fully address the requirements of the Comprehensive Spending Review and will need to be revised to deliver a further £1m of savings during 2011/12. This is in addition to the £0.5m of savings to be delivered in 2010/11.

9 Like all public sector organisations, you need to ensure that your arrangements for financial management and performance management are strong enough to address the new delivery challenges faced by local authorities. This issue takes on greater significance in the light of changes to your senior management structure and Members will need to ensure that there is resilience within the medium term financial strategy and that your governance arrangements are sufficiently robust to deliver the high level of scrutiny and engagement required in such a challenging financial climate. Arrangements will need to focus on the delivery of measurable improvements in outcomes and on the delivery of financial savings.

10 You may have to take difficult and challenging decisions over the next four years and it is against this background that I make the following recommendations to you as Members of Gedling Borough Council:

Recommendations to Members

- R1** Continue to work with your officers to revise the current Medium Term Financial Strategy and ensure that it is subject to appropriate and challenge and analysis.
 - R2** Continue to collaborate with partners to address financial and performance management challenges and to explore new and innovative ways of working.
 - R3** Assure yourselves that your current financial and performance management arrangements are strong enough to respond to the significant financial; and delivery challenges faced by the Council and the wider public sector.
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Financial statements and annual governance statement

The 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 your 2009/10 financial statements on 27 September 2010.

Overall conclusion from the audit

11 I issued an unqualified opinion on your 2009/10 financial statements on 27 September 2010, ahead of the statutory deadline of 30 September.

12 The financial statements you presented for audit were free from material error. Although the overall arrangements to produce the financial statements were sound I reported some areas where further improvements could be made in my Annual Governance Report.

Significant weaknesses in internal control

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

Readiness for IFRS

14 During the year, I reviewed your preparations for the introduction of International Financial Reporting Standards (IFRS) from 2010/11. You are on track to produce IFRS-compliant accounts for 2010/11 by 30 June 2011. You reviewed your contractual arrangements to identify whether there are any assets that need to be accounted for in a different way and you are working on the restatement of the 2009/10 accounts as a first step towards IFRS compliant 2010/11 accounts.

Value for money

I considered whether you are managing and using your 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

15 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 end with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

16 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.

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

VFM conclusion

18 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 audited body.

19 I issued an unqualified conclusion stating that you had satisfactory arrangements to secure economy, efficiency and effectiveness in your use of resources on 27 September 2010.

20 This is a summary of my findings.

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

21 I have reported my conclusions on each of the relevant areas previously in my Annual Governance Report presented to the Policy and Resources Committee on 13 September 2009. The key findings are set out below.

Managing finances

22 You integrate financial planning with strategic planning in the medium and longer term and have clear ambitions to improve local services. You regularly benchmark services to highlight areas where costs are relatively high and you have a good track record of delivering efficiencies. Careful planning and monitoring supports this approach.

23 Your financial reports are produced to a high standard and within required time frames.

Governing the business

24 You have a clear vision of intended outcomes for local people and you have targeted investment to support residents of specific areas; this investment has made demonstrable improvements to the environment, safety and resident satisfaction.

25 Performance management data quality has been enhanced by a new performance management system. You have used a wide variety of data to support targeted investment in local neighbourhoods and to support your response to the recession. You can demonstrate that risk management arrangements are more embedded and you have been effectively managing your financial risks in the economic downturn.

Managing resources

26 You have a strategy for environmental sustainability, although some development plans are still at a draft stage. You have made progress on a number of initiatives which have resulted in a reduction in carbon emissions by the Council. You need to take action to ensure plans are embedded and that resultant actions are delivering additional benefits for local people.

27 Your management of sickness absence continues to support a steady downward trend in reported absence rates and you recognise the need to do more around internal communication to staff to ensure involvement with future plans.

Approach to local value for money work from 2010/11

28 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 audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

29 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.

30 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 in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial position

31 The economic downturn, together with the financial pressures faced by the public sector, continues to represent a significant challenge.

32 Central government funding to local councils is set to reduce by 26 per cent over the coming four year period. For Gedling Borough Council this equates to £1.75m. Additional financial pressures may arise through other areas such as pension contributions, capital charges, an ongoing lower level of interest received on investments and any potential asset impairments.

33 You are already taking steps to assess ways of addressing the financial challenges. For example:

- restructuring the senior management team (see below) leading to a reduction in staff costs;
- having a public consultation into the 10/11 budget;
- closing the crèche facilities at Leisure Centres saving £50,000 per year;
- restructuring the management of Parks and Open Spaces to save £60,000 per year; and
- maintaining the recruitment freeze already in place.

34 In common with all public sector bodies, you need to review your arrangements for financial management and ensure they are suitably robust to address the forthcoming challenges. For example, ensuring that:

- there is resilience in the medium term financial strategy; and
- arrangements provide robust assurance that resources are targeted at areas of highest priority and that scope for financial savings or re-investment can be identified and actioned.

35 You have a medium term financial plan in place which takes account of some aspects of the national picture but 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.

Recommendation

R4 Maintain your approach to develop and regularly update financial models to show, as far as practicable, the impact of uncertainties using 'best case', 'worst case' and 'most likely' outcome scenarios.

Organisational structure

36 In October 2010 the Council approved changes to its senior management structure (including the appointment of a new Chief Executive and the deletion of the post of Deputy Chief Executive). These changes reflect the requirement to reduce costs but also represent good succession planning as appointments are being made from within the Council.

37 The Council will need to ensure governance arrangements remain effective and roles and responsibilities continue to be delivered while the changes are made and until the new arrangements are properly embedded. This is to ensure that strategic objectives continue to be met.

Closing remarks

38 I have discussed and agreed this letter with the Director of Resources. I will present this letter at the Audit Committee on 14 December 2010 and will provide copies to all members in November 2010.

39 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 plan	15 June 2010
Annual governance report	13 September 2010
Opinion on financial statements	27 September 2010
Value for money conclusion	27 September 2010
Annual audit letter	November 2010

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

John Cornett
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£63,200	£63,200	£0
Value for money	£23,800	£23,800	£0
Whole of Government accounts	£2,000	£2,000	£0
Total audit fees	£89,000	£89,000	£0

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.

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