

Annual Audit Letter

South Ribble 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.

Contents

Key messages	2
Audit opinion and financial statements	2
Value for money	2
Current and future challenges	2
Financial statements and annual governance statement	3
Overall conclusion from the audit	3
Internal control	3
IFRS in local government	3
Investment in Icelandic Banks	4
National Fraud Initiative	4
Value for money	5
2009/10 use of resources assessments	5
VFM conclusion	5
Managing Finances	6
Governing the Business	7
Managing Resources	8
Approach to local value for money work from 2010/11	9
Current and future challenges	10
Closing remarks	11
Appendix 1 – Glossary	12

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 I issued an unqualified audit opinion on the 2009/10 financial statements on the 30 September 2010. The financial statements were again prepared to a high standard with very few changes required to be made as a result of my audit.

Value for money

2 Each year I consider how well the Council is managing and using its resources to deliver value for money. I concluded that the Council has proper arrangements in place and I issued an unqualified VFM conclusion on 30 September 2010.

3 The Council continues to perform well during 2009/10, in what has been a particularly difficult economic environment. Significant efficiencies have been delivered, over £2m, whilst continuing to maintain good levels of service.

Current and future challenges

4 Like all councils, South Ribble faces significant financial pressures. The full extent of necessary spending cuts resulting from the Autumn 2010 spending review and allocation of grant funding from 2010/11 and beyond needs to be assessed. The Council has already started to address the potential implications of the spending review and will need to continue to review its priorities, service standards and how services are delivered as the extent of the 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, within the statutory target date.

Overall conclusion from the audit

5 I issued an unqualified audit opinion on the Council's financial statements on 30 September 2010. The Council's draft financial statements were produced ahead of the target date of 30 June 2010. My audit team worked closely with officers in carrying out the audit. The quality of the working papers to support the financial statements continues to be a good standard.

6 A small number of issues were identified from my review of the financial statements and these mainly affected disclosure notes. The changes made had no overall impact on the overall general fund balance of the Council and most were classification errors.

Internal control

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

IFRS in local government

2 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 onwards.

3 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.

4 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 snap surveys on the Council's progress towards IFRS where we assessed the Council as making good progress and on track to deliver against its timetable.

Investment in Icelandic Banks

5 As previously reported, the Council has investments in Landsbanki Island pf and Heritable Bank plc currently totalling £3.3m. Latest guidance received is that councils should expect to recover 95 per cent from Landsbanki and 85 per cent from Heritable. However, for the Landsbanki investment this assumes that the Council will be classed as a priority creditor. This will be decided by the Icelandic courts and the judgement is expected late in 2011. If priority status is not confirmed it is estimated that recovery could fall to 38 per cent.

6 I am satisfied that the Council's 2009/10 accounts have been prepared appropriately in line with the latest guidance.

National Fraud Initiative

7 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 2008/2009 amount to £215m. Since the exercise began in 1996, cumulative national savings total £614m.

8 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 forward savings, amount to £204,000. Most of this relates to benefit fraud investigations.

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

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

10 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 2010 to inform my 2009/10 conclusion.

VFM conclusion

11 Based on the findings from my work on use of resources 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.

12 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
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Workforce	Yes

13 I issued an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The following paragraphs provide feedback on our assessment of the arrangements in place which we have considered in reaching our VFM Conclusion at the 2009/10 audit.

Managing Finances

14 South Ribble Borough Council continues to demonstrate a strong track record of managing its finances to deliver value for money. It also uses cost and budget monitoring information well to inform decision making.

15 Financial planning is fully integrated with strategic priorities, linking the Medium Term Financial Strategy and budget planning. Councillors take an active part in financial decisions. The Council communicates well with Citizen's Panels, Equality Forums and Black and Minority Ethnic groups to understand what matters to citizens and reflect these views in Council spending priorities. It is actively involved in assisting local businesses and communities.

16 The Council has a sound understanding of its costs and performance and has used this to achieve efficiencies in 2009-10. The Council has delivered significant efficiency savings of £2.03 million in 2009-10 through its C-smart programme. It has worked well with other councils to make best use of combined resources and increase the impact of its work. The Council has improved value for money through good use of information technology and by re-engineering business processes. Overall costs and most service costs are below average compared with similar councils.

17 The Council's financial reporting is timely, reliable and meets the needs of users. Reports are clear and concise helping members to make decisions.

18 Like all councils, South Ribble faces significant financial pressures. It will be important to carefully monitor planned efficiency savings throughout the year, so that swift action can be taken if requirements for savings change or any predicted shortfalls occur. 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.

Governing the Business

19 The Council has a robust approach to commissioning and procurement thorough an understanding of the needs of the borough's diverse communities. In partnership with other agencies, the council is targeting inequalities, for example through work with vulnerable families. There is a strong focus on improving customer access and experience. Good progress has been made on shared arrangements with a neighbouring council including joint procurement. The Council has a thorough understanding of the supply market for the services that it procures or commissions. The Council reviews the competitiveness of services and achieves value for money whilst meeting wider social, economic and environmental objectives.

20 The Council produces reliable data and information to support decision making. Robust arrangements are in place to ensure data security, including compliance with nationally recognised standards such as Government Connect. Data is shared with partners and is used to target resources on priority areas such as community safety. The Council has strengthened arrangements for ensuring the quality of data provided by third parties.

21 The Council has a strong track record of community engagement in determining local priorities. During 2009/10 the 'Your Area' campaign saw a multi agency consultation across the Borough, going out on an area committee footprint, to ascertain local needs and priorities. Feedback from this has informed new Local Area Plans, which the LSP has agreed to resource for 2010/11. The Council continues to make good use of performance data to manage and improve the delivery of services. A culture and ethos of performance improvement and a clear focus on customers continue to be evident throughout the Council.

22 The Council continues to strengthen its governance arrangements. A senior officer steering group supports the Governance Committee in monitoring governance practices and highlights any significant internal control issues. The Council constantly raises the standards of ethical conduct and behaviour to the highest levels. Some 90 per cent of employees feel the Council puts its key value of integrity into practice. Partnership governance is also strong. The Scrutiny Committee provides a high degree of rigour and challenge, for example reviews of the leisure and waste partnerships resulted in recommendations to improve customer focus and show how partners deliver value for money for local people. Internal Audit also carries out governance reviews demonstrating the Council's commitment to build on and strengthen existing strong arrangements.

23 Risk management arrangements are effective and integrated with corporate and financial planning and performance management. The Council actively manages strategic risks such as the effects of the economic and housing market downturns. Robust counter-fraud and corruption arrangements are in place. The Council has sound internal control arrangements with the Governance Committee overseeing and providing robust challenge of, the Council's risk, internal control and audit arrangements.

24 The increasing scale of expected funding cuts is a catalyst for councils requiring a renewed focus on challenging the arrangements for providing back office and frontline services. As part of the Council's response to this, the Council should review and act on the lessons it has learnt from its development and use of shared services to date.

Managing Resources

25 The Council understands its use of natural resources and its impact on the environment. The Council maintains a Sustainable Procurement Register which details all areas of expenditure where an environmentally friendly option has been used. Examples include purchase of green electricity, recycling of all paper waste and lighting control throughout the Civic Centre offices. The Council has also introduced efforts to reduce staff mileage, eg a pool car, pool bikes and home working.

26 The Council is working with the Energy Saving Trust to develop detailed action plans for improving environmental performance and has targeted initiatives on energy consumption for its civic buildings. A 20 per cent reduction in energy use in civic buildings was achieved in 2009/10.

Approach to local value for money work from 2010/11

27 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.

28 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.

29 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

30 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.

31 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 that the shape of some services will have to change.

32 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 of capital programmes;
- review income streams;
- identify ongoing asset impairment; and
- identify patterns of demand and shifting priorities.

Closing remarks

33 I have discussed and agreed this letter with the Chief Executive. I will present this letter at the Governance Committee on 1 December 2010 and will provide copies to all board members.

34 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	April 2009
Audit Opinion Plan	April 2010
Annual Governance Report	September 2010
Opinion on the Financial Statements	September 2010
Value for Money conclusion	September 2010
Audit Letter	November 2010

35 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.

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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