# Annual Audit Letter

South Kesteven District Council

Audit 2008/09

December 2009





### Contents

Key messages	3
Financial statements and annual governance statement	5
Value for money and use of resources	6
Organisational Assessment	9
Closing remarks	11

#### **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.

## 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 I have undertaken to assess your arrangements to secure value for money in your use of resources. It also includes a summary of the Audit Commission's organisational assessment of the Council.

#### **Audit Opinion**

1 My work on the financial statements is complete and an unqualified audit opinion was issued on the 22 October 2009 as reported in my Annual Governance Report.

#### Value for money

2 I have assessed your arrangements for securing economy, efficiency and effectiveness in the use of resources for the Value for Money Conclusion and given an unqualified conclusion as reported in my Annual Governance Report.

#### **Managing Performance and Organisational Assessment**

3 South Kesteven District Council performs adequately overall. A recent survey showed that 43 per cent of residents were satisfied with the Council, slightly below the national average. The Council is tackling issues that local people recognise as priorities. These are the speedy processing of benefits, repairs to the Council houses, waste collection and recycling, providing affordable homes and taking action to improve the energy usage in homes. Councillors and staff work well together and the Council controls its money effectively to improve services. But initiatives to reduce anti social behaviour have yet to convince enough people that the problem is reducing, and progress to revitalise town centres has not met expectations.

#### **Financial Statements**

4 Management agreed to adjust the financial statement for the errors identified within my Annual Governance Report and there were no errors (other than those of a trivial nature) that management declined to correct.

#### **Financial Position**

The last year has seen the country enter a significant economic recession with an increasing demand for public services and likelihood of reduced levels of central government funding. Together, these provide significant challenges for the Council's financial position.

#### **Audit fees**

6 We were able to deliver the audit within the fee agreed at the start of the year as summarised below.

#### Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£71,051	£71,051	Nil
Value for money	£24,087	£24,087	Nil
Total audit fees	£95,138	£95,138	Nil
Inspection	£12,704	£12,704	Nil
Total	£107,842	£107,842	Nil

#### Actions

7 Recommendations are shown within the body of this report and have been agreed with the audited body.

#### Independence

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

South Kesteven District Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds.

#### Significant issues arising from the audit

- 9 The audit opinion was unqualified and I have no significant issues to bring to your attention arising from the audit of the financial statements.
- 10 The economic downturn is having a significant impact on public finances and the Council. The impact on treasury management is immediate with a significant reduction in income from investments but there are wider implications for service delivery, capital programmes and other income streams. I have considered the impact as part of my responsibilities in relation to the financial statements and stewardship of public funds.

#### Material weaknesses in internal control

11 I did not identify any significant weaknesses in your internal control arrangements. I also undertook a review of your treasury management arrangements and again identified no significant weaknesses.

#### **Accounting Practice and financial reporting**

12 I considered the qualitative aspects of your financial reporting and there are no matters that auditing standards require me to report to you.

#### **Financial Standing**

- 13 The last year has seen the country enter a significant economic recession. The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 14 The Council has responded to this challenge with a review of budget and financial plans. The impact of the recession will continue to present a challenge to the Council in the coming financial year and I will continue to monitor your response and actions in this key area.

# Value for money and use of resources

I considered how well the South Kesteven District Council 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 South Kesteven District Council has 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

- 15 In forming my scored use of resources judgements I have used the methodology set out in the <u>use of resources framework</u>. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale of 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 16 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.
- 17 The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, have been reported separately within the use of Resources Auditor Feedback Report and within the Annual Governance Report.

#### Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	2

18 The Council meets the minimum requirements for the assessment and overall is performing adequately for its use of resources and delivering value for money.

#### **VFM Conclusion**

- 19 I assessed your arrangements for securing economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas have been reported separately in the Use of Resources Auditor Feedback Report.
- 20 I issued an unqualified conclusion stating that South Kesteven District Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### **Financial Position**

- 21 I have also considered the Council's financial position in light of the economic downturn. During 2008/09 the Council's
  - General Fund was under spent by £1.476m against a budget of £18.042
  - Housing revenue account was under spent by £145,000 resulting in a higher contribution to the HRA balance
  - Capital was under spent by £4.381m against a capital programme of £12.058 which is 36 per cent of the programme.
- 22 In 2009/10 the Council is forecasting an under spend of £303,000 which may result in an additional contribution to the General Fund balance which at this stage is forecast to be £1.917m at the year end. The financial position of the Council remains challenging and the Council will need to monitor it closely.

#### **Local Area Agreement**

- 23 Local Area Agreements (LAAs) aim to enable public, private and community and voluntary sector bodies to pool their efforts and financial resources in order to improve service outcomes and quality of life for local people. The duty to prepare and performance manage the LAA rests with the County Council, but the involvement and commitment of all partners is clearly central to the effective delivery of LAA targets which reflect local priorities.
- 24 As part of our 2008/09 audit we agreed with the partner authorities in Lincolnshire that we would carry out a review of the risks associated with participation in the LAA.

#### **Findings**

25 At the time of the onsite work the Lincolnshire LAA was at an early stage of development. As a direct result of a concentration by partners on process and procedure few outcomes were likely to be delivered in the short term. This audit therefore concentrated on assessing if the correct building blocks were in place to ensure the delivery of outcomes the public will benefit from.

- We found that the partnership was making progress in developing robust governance and performance management arrangements, although there were some specific aspects of good governance and process still to be implemented. Most of these will be put in place once the partners merge the LAA priorities in the Sustainable Communities Strategy for Lincolnshire. This is not likely to happen until the end of 2009/10. We recommended partners:
  - clarify roles and expectations of each of the partners including priority leads, as well as programme management and working protocols to ensure that key timelines are met and delivery of outcomes remains on plan;
  - draft terms and conditions of funding in detail to ensure appropriate allocation and governance, and the appropriate use on priorities that will make a difference;
  - implement clear processes to ensure value for money is delivered, develop clear links between financial and performance management information and ensure the learning from the area two tier pathfinder efficiency review is replicated in this programme;
  - establish a clear risk and assurance framework which is linked back to individual priority risks and ensure the correct people and financial resources are in place to enable the effective management and delivery of the project; and
  - ensure the performance management framework that is clearly accepted and understood by all in order that clear reporting can be delivered to the Strategy Board and the public.
- 27 The partnership demonstrates capacity to improve in a number of ways:
  - the partnership is self-aware, and as a result is taking steps to strengthen governance, financial management and performance management;
  - there is clear leadership from the accountable body and communication between partners is good;
  - partners have an obvious knowledge and commitment to the benefits of working together to deliver better outcomes for the public. Early signs show they are working well together to develop the delivery of the priorities;
  - a governance structure is in place including the Strategy Board and the Planning Group; and
  - delivery planning is taking shape and in most cases delivery plans are in place.
- 28 The Lincolnshire partnership is merging its LAA priorities into the SCS themes which will be the basis of reporting in future years. This should help to clarify the focus of the LAA targets and align them to the SCS themes. An LAA recommendations action plan is in place and the SCS strategy board is now monitoring the LAA actions quarterly.

# Organisational Assessment

- 29 The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for South Kesteven District Council is that it performs adequately.
- 30 South Kesteven District Council performs adequately overall. A recent survey showed that 43 per cent of residents were satisfied with the Council, slightly below the national average. The Council is tackling issues that local people recognise as priorities. These are the speedy processing of benefits, repairs to the Council houses, waste collection and recycling, providing affordable homes and taking action to improve the energy usage in homes. Councillors and staff work well together and the Council controls its money effectively to improve services. But initiatives to reduce anti social behaviour have yet to convince enough people that the problem is reducing, and progress to revitalise town centres has not met expectations.
- 31 The Council scores 2 out of 4 for managing performance. It is committed to providing services in the way people want and is carrying out a programme of reviews to achieve this. More than 4 in 5 residents think that people get on well together and think the area is a good place to live. This is above the average of Lincolnshire. The time taken to process new benefit claims is now cut to 14 days, at a time when the number of people making claims has risen. The time taken to complete housing repairs has been reduced and homes have been improved. Vulnerable people can access advice in their own homes. There are things the Council could do better, like answering telephones more quickly, improving consultation so that all Council services understand their customers and their aspirations. The Planning service needs to improve further so it can play a key role in the Council's regeneration priorities.
- 32 The carbon footprint of South Kesteven District Council is the highest of all districts in Lincolnshire. The steps being taken to reduce it are commendable with early success in transport and in reducing the energy consumption in people's homes. Waste collection and recycling is now among the best in the country.
- 33 The Council works well with other organisations. As part of the Lincolnshire Improvement and Efficiency Partnership, it shares some services with other authorities and is a leader in using efficiency reviews to improve service and reduce cost. It works with health services to reduce inequalities and with the Police to reduce anti-social behaviour. It has also has had success in assisting businesses to grow and invest locally and facilitated finding jobs for 150 people after Fenland Foods closed down. It has paid most local suppliers promptly.
- 34 The Council scores 2 out of 4 for Use of Resources. It manages the money it has to spend well and has very low costs in any comparison with other councils. It recognises that cost alone is not the criteria for assessing value for money. Higher cost areas are quickly scrutinised to ensure they are understood and in line with performance and satisfaction expectations. Good practice is not yet adopted across all Council services. People can find information in the Council newspaper 'SKtoday' and on the Council website.

- 35 The Council has made sure that councillors and staff are held responsible for the money they control. There are regular Council meetings where councillors oversee budgets, and make sure that councillors and staff are behaving properly, for example in awarding contracts or claiming expenses. Before the Council starts new activities, or changes existing ones, it checks to see if things can be done differently to save money.
- 36 There have been a number of changes in senior management over recent years and a new Chief Executive has recently been appointed. There is good team working amongst the senior managers which is expected to continue under the new leadership. The Council is about to embark on major regeneration projects of a larger scale than previously attempted and it understands that it will have to bring in new skills to supplement the existing team.

# Closing remarks

- 37 I have discussed and agreed this letter with the Chief Executive and the Corporate Head Finance and Customer Services. I will present it at the Governance and Audit Committee on 18 March 2010 and will provide copies to all members.
- 38 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the South Kesteven District Council during the year.

#### Table 3

Report	Date issued
Annual Governance Report	September 2009
Use of Resources Auditor Feedback Report	October 2009
Organisational Assessment	December 2009

39 The South Kesteven District Council has taken a positive and constructive approach to our audit. I wish to thank staff and members for their support and co-operation during the audit.

Chris Wilson

**District Auditor** 

December 2009

### 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.

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