

Annual Audit Letter

Nottinghamshire County 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 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 9).**

Audit opinion and financial statements

1 I issued unqualified opinions on the County Council and Pension Funds' 2009/10 accounts on 28 September 2010.

2 The closedown arrangements for producing the financial statements continue to work well. The accounts were presented for audit before the required statutory date and were free from material error.

3 The Council is on track to produce IFRS-compliant accounts for 2010/11 by 30 June 2011.

Value for money

4 I concluded the Council has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 28 September 2010.

Current and future challenges

5 The Council is expecting to achieve a net underspend against its 2010/11 budget. The Council has introduced additional budget control measures and managers are taking action to address overspending and deliver additional savings beyond those already planned for the year.

6 The Council has dealt with in-year cuts in 2010/11 government grants and has made good progress in planning its response to the further reductions indicated by the latest Comprehensive Spending Review. The Council has a programme to deliver the £181 million savings it forecasts as needed to balance its medium term financial plan. The Improvement Programme is resourced and has significant member support. The Council has delivered savings in 2010/11 and identified further proposals to free up additional resources to be used to mitigate the impact on front line services.

7 The challenge will be to continue to maintain and manage core services in line with strategic objectives as income from central government falls. The Council's current financial health and strategy provides a solid basis for future planning.

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 unqualified opinions on the 2009/10 financial statements on 28 September 2010.

Overall conclusion from the audit

8 I issued unqualified opinions on the County Council and the Pension Funds' 2009/10 accounts on 28 September 2010.

9 The closedown arrangements for producing the financial statements continue to work well. The accounts were presented for audit well before the required statutory date of 30 June 2010 and were free from material error. A small number of disclosure notes in the financial statements were amended and two unadjusted errors which were not material either individually or collectively were reported to members.

10 I certified the annual Whole of Government Accounts (WGA) return on 29 September 2010.

11 The 2009/10 audit could not be formally concluded due to two ongoing issues regarding local electors' rights of inspection and objection to the 2008/09 accounts. The 2009/10 audit certificate cannot be issued until both of these issues have been resolved and that year's audit has been concluded. I was satisfied that these matters did not have a material impact on the 2009/10 financial statements.

Significant weaknesses in internal control

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

Readiness for IFRS

13 During the year, I reviewed the Council's preparations for the introduction of International Financial Reporting Standards (IFRS) in the current financial year.

14 The Council is on track to produce IFRS-compliant accounts for 2010/11 by 30 June 2011. It has already addressed the new PFI accounting requirements which applied in 2009/10 and officers have made good progress in their review and assessment of other areas which are subject to changes in accounting treatment under the new standards. The Council expects to complete the restatement of the audited 2009/10 accounts by early January 2011 in readiness for our audit of the restated accounts and agreement of the revised opening balances.

Annual Governance Statement

15 The challenges and changes faced by the Council over the next few years will require the maintenance of sound and effective governance arrangements. These are reported each year in the Annual Governance Statement which forms part of the financial statements.

16 The 2009/10 Statement provided a clear assessment of the framework in place, the review arrangements and the actions being taken in relation to the significant governance issues identified. The governance framework is comprehensive and was assessed as working well. Risk management and internal control processes are well established and form a key element in decision taking and the Audit Committee will have a key role to play in overseeing these arrangements in a period of significant change.

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

1 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.

2 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.

VFM conclusion

3 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.

4 My findings are summarised on the following pages.

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
Strategic asset management	Yes
Workforce	Yes

5 I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources on 28 September 2010. The key findings from my work have been fed back to officers and are summarised below.

Managing Finances

6 Widespread budget consultation has informed the updated 2010-14 financial strategy and has helped shape the Improvement Programme to deliver significant financial savings over the period of the plan. The budget is comprehensive and service plans reflect changing priorities. Financial standing has been good and no significant under or overspends were reported in the year. The Council has not needed to draw on reserves and the capital programme has been significantly reduced to reflect new Council priorities and changes in the economy and availability of capital resources.

7 The Council has improved its understanding and control of its costs and is delivering efficiency savings. The Council has set challenging targets for budget reductions and is making progress on its programmes to deliver them. Decisions have been informed by a wide-ranging analysis of cost, performance and future pressures. The Council has continued to achieve reasonable VFM with high spending areas reflecting priorities and performance. There is improved understanding of costs and outcomes from significant partnerships.

8 Financial monitoring and forecasting information is reliable and is used effectively. The financial reporting arrangements are well established and new accounting requirements have been successfully addressed in the year. Published reports are accessible and provide an objective and understandable assessment of performance.

Governing the Business

9 There have been sustained good practices in needs-led commissioning and more progress towards joint commissioning. Procurement has continued to be an area of weakness and procurement transformation features as an important strand in the Council's Improvement Programme. The Council has been making good progress on its programme of service reviews, including fundamental reviews of trading services.

10 The information governance arrangements are mostly effective and there has been some improvement in use of information to manage performance. The Improvement Programme however acknowledges the limitations on the current arrangements and the Council is investing around £10 million in an integrated business management system in order improve information management and achieve cost savings in 2011/12.

11 The Council promotes good governance both internally and in its partnerships. A good range of member briefings and training has been made available and attendees' evaluation has overall been positive.

12 The Council continues to manage risk effectively and the arrangements are embedded. The Council's fraud and corruption strategy is understood and supported by managers and members. Internal Audit's work programme covered the key systems in the Authority and they found that the controls and procedures continue to operate satisfactorily.

Managing Resources

13 The Improvement Programme includes a number of important activities to review the Council's property requirements and to address the significant need to modernise and rationalise its estate. The maintenance backlog continues to be high although funding to address priority Health and Safety issues has been earmarked for the next four years.

14 The Council has adequate arrangements for managing its workforce. Some key skill areas are being developed and the corporate learning and development programme is linked to priorities. The Investors in People assessment reported improvements in training and development. Despite much work to reduce sickness, improvement has been slow and the reported level remains relatively high. There is not yet an overall agreed workforce strategy although there are some departmental plans. The Council supports and involves the workforce in organisational change and is developing its Equalities Framework.

Approach to local value for money work from 2010/11

15 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.

16 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

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

17 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

Financial position

18 The Council, despite some exceptional cost pressures and initial delays in delivering the planned savings for the year, expects to achieve a net 2010/11 budget underspend by the end of the year. The increasing costs of looked after children has been the main area of overspending, with £2 million initially allocated from the contingency budget in year. The reported areas of overspend are consistent with cost pressures faced by other councils. The Council has introduced additional budget control measures and other actions. Managers are taking action to address overspending and to deliver additional savings beyond those already planned for the year, with the Council's Cabinet monitoring progress.

19 Capital spending was forecast to be around £51 million less than the £156 million programme budget due to a slippage, savings and other reductions in the programme in year. The delivery of the programme is being carefully monitored.

Future challenges

20 Across the country, all councils face severe and long-term social and financial challenges over the next few years. The government plans to eliminate the structural deficit in the period 2011/12 to 2014/15. Public spending will have to fall and councils will play a major part in helping to reduce the deficit. Revenue grants (excluding schools) will fall by an approximate 28 per cent with the majority impacting in the first two years. Capital funding will also fall by 45 per cent.

21 As well as facing increases in cost through normal inflation there are demographic pressures on the adult care and the looked after children budgets. The Council has had to deal with in-year cuts in government grant for 2010/11, including a £5 million reduction in Area Based Grant, and has made good progress in planning its response to the further cuts indicated by the recently announced Comprehensive Spending Review. The Council has an ambitious Improvement Programme underway to deliver the £181 million savings it forecast as being needed to balance its medium term financial plan. The Improvement Programme is resourced and has significant member support. The Council is delivering savings in 2010/11, is restructuring its management and has identified further proposals, to be implemented by 2011/12, to free up further resources to be used to mitigate the impact on front line services.

22 The challenge will be to continue to maintain and manage core services in line with strategic objectives as income from central government falls, given the limited opportunities to raise income from fees and charges and any increase in council tax. The Council's current financial health and strategy provides a solid basis for future planning but some uncertainties remain about future funding levels and the full implications of the comprehensive spending review. These uncertainties will become clearer over the next few months as budgets are reviewed when the provisional finance settlement is published in December 2010.

Closing remarks

23 I have discussed and agreed this letter with the Chief Executive and the Service Director (Finance). I will present this letter at the Audit Committee on 15 December 2010 and will provide copies to all County Councillors.

24 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
Initial Audit Plan 2009/10	27 April 2009
Certification of Claims and Returns - Annual Report 2008/09	10 February 2010
Audit Opinion Plans 2009/10 - County Council and Pension Fund	10 February 2010
Annual Governance Reports 2009/10 - County Council and Pension Funds	20 September 2010
Audit opinions on the Financial Statements - County Council and Pension Funds	28 September 2010
Value for Money Conclusion	28 September 2010
Whole of Government Accounts opinion	29 September 2010
Final Accounts Report	3 November 2010
Annual Audit Letter	30 November 2010

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

Ian Sadd
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£149,900	£149,900	nil
Value for money	£79,100	£79,100	nil
Total audit fees	£229,000	£229,000	nil

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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- any third party.



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