

Annual Audit Letter

East Cambridgeshire District Council

Audit 2008/09

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	7
Value for money and use of resources	9
Financial Standing	12
Audit fees	13
Closing remarks	14

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any 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 accounts and the results of the work I have undertaken to assess the way in which you use your resources.

Accounts

- 1** The Council is required to prepare and approve its 2008/09 accounts by the 30 June 2009. I am responsible for issuing an audit opinion on these by 30 September 2009, which concludes whether the accounts present fairly the financial position at 31 March and the income and expenditure for the financial year. My opinion is either unqualified (where the accounts present the financial position fairly), or qualified (where I have not received enough assurance that the accounts do present fairly.)
- 2** The Council met the deadline for approving its 2008/09 accounts. The accounts were complete and were supported, in the main, by adequate working papers, which enabled me to issue my unqualified opinion by the 30 September deadline.
- 3** I did find some errors in the accounts. I reported these to the Council's Policy and Resources Committee (as those charged with the governance of the Council), who agreed with officers' recommendation to amend the accounts for all but two of these errors.
- 4** An enhanced reporting framework (International Financial Reporting Standards) is to apply to local authorities accounts in 2010/11. Officers have considered the requirements of the new framework and have prepared a plan to enable the Council meet these requirements, however progress against this plan has been limited.

Use of resources

- 5** I assessed how the Council makes use of its resources to provide local services during 2008/09. I applied the national framework to my assessment, giving a score between 1 (inadequate and below minimum standards) and 4 (performing strongly) in each of three key areas.
- 6** I assessed the Council as performing adequately overall (Level 2), with the following scores for each of the three main themes assessed:
 - Level 2 in respect of the way it manages its finances;
 - Level 2 in respect of the way it manages its people; and
 - Level 2 in respect of the way it manages and governs the business as a whole.

Value for money conclusion

- 7** Based on the results of my use of resources assessments, I issued a conclusion on whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.
- 8** I concluded that the Council had put in place adequate arrangements and as a result issued an unqualified value for money conclusion for 2008/09.

Managing performance

- 9** The Audit Commission also assesses how well the Council manages and improves services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering corporate priorities. The priorities have been drawn from what matters most to the local people. The scores and summary findings are shown in the table below. The scoring mechanism is the same as for use of resources above.

Table 1 Managing performance scores

Score	Overall findings
2	In 2008/09 the Council improved most of its services to local people. It met 33 of its 35 targets. The Council dealt with planning applications quickly, worked out benefits claims quickly, kept the district clean, and prevented more people becoming homeless. Targets missed are the time taken to remove fly-posters and the numbers of affordable homes built. The housing target was only missed because some houses were built sooner than expected and were included in the 2007/08 figures.

Overall organisational assessment

- 10** 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 is 'adequate'.
- 11** East Cambridgeshire District Council performs adequately. The Council is tackling issues that local people recognise as priorities e.g. paying benefits quickly, helping to reduce crime, recycling people's rubbish and making the area a clean place to live. Councillors and staff work well together, and the Council has saved money and used it to improve services. But not all the Council's partnerships are effective and it needs to do more to encourage different communities to get along together. Overall resident satisfaction with the way the Council runs things is about average.

Key messages

- 12** The Council's managing performance and organisational assessments, and the overall Comprehensive Area Assessment for Cambridgeshire, are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Cambridgeshire, Nigel Smith.
-

Financial standing

- 13** The last year has seen the country enter a significant economic recession on the back of a global economic crisis triggered by the collapse of a number of high profile international banks.
- 14** The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these will provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 15** We reviewed the Council's treasury management arrangements during the year and assessed them as adequate. The Council has now adopted a revised Treasury Strategy for 2009/10, in line with other public sector bodies nationally.
- 16** The Council overspent its budget by £323k in 2008/09 and is projecting an overspend of £600k for 2009/10 and £1.6 million for 2010/11. Useable general fund reserves stood at just over £1m at as at 31 March 2009, with a further £1.3m in earmarked reserves. If the Council continues to overspend in line with its projections and does not take action to increase reserves, its reserves will be fully extinguished before the end of 2010/11. This clearly represents a significant risk. The Council has employed a financial consultant to evaluate the medium term financial strategy and the levels of reserves, and to identify action for the Council.
- 17** The impacts of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area, with a particular focus on the MTFs as part of my 2009/10 use of resources assessment.
-

Audit fees

- 18** Our audit work was carried out within the planned fee for 2008/09.
-

Independence

- 19** As the External Auditor appointed to audit the Council, I have to maintain my independence. I confirm that this audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.
-

Recommendations

20 I have made a number of recommendations within my Annual Governance Report to further improve the Council's arrangements and performance. The Council should monitor the implementation of these recommendations, along with two additional recommendations below.

Recommendations	
R1	Identify and implement actions to make further savings and increase the Council's reserves to an appropriate level.
R2	Progress the plan to enable the Council meet the new reporting requirements under IFRS.

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.

Audit opinion

- 21** I issued an unqualified opinion on the Council's accounts on 25 September 2009, thereby meeting the 30 September deadline set within the Accounts and Audit Regulations 2003. In my opinion the accounts present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 22** Before giving my opinion, I reported to those charged with governance, in this case the Policy and Resources Committee, on the issues arising from the 2008/09 audit. I issued my report on 22 September 2009.
-

Accounting issues

- 23** The draft accounts were approved on 23 June 2009, prior to the 30 June deadline specified in the Accounts and Audit Regulations 2003.
- 24** In general, the working papers supporting the accounts were of an adequate standard, and responses to queries and requests for additional information were helpfully dealt with by finance staff. We had difficulties with the audit of fixed assets, due to inadequate working papers in some areas and the level of errors found. These issues were reported in my Annual Governance Report, along with recommendations to improve processes for future years.
- 25** The audit identified a material error in the financial statements arising from the revaluation of fixed assets. In addition, there were a number of non trivial and disclosure errors. The Council amended the accounts for all but two of the issues identified by my audit to ensure disclosures fully met the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2008.
-

Internal Control

- 26** We carried out our triennial review of your Internal Audit service in 2008/09. The purpose of this work is to assess if your Internal Audit service complies with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006. We concluded that, apart from a small number of exceptions which management are aware of, your Internal Audit service complies with the code of practice and that we can rely on its work.
-

International Financial Reporting Standards

- 27** International Financial Reporting Standards (IFRS) will be applied to local government accounts for the first time in 2010/11. This will also require comparative figures for the 2009/10 financial year to be restated in the new IFRS format.
- 28** Applying IFRS will have significant implications for the way in which local authorities prepare their annual financial statements, particularly in the accounting for fixed assets and leases. The Chartered Institute of Public Finance Accountants (CIPFA) will be issuing their IFRS Code of Practice in December 2009.
- 29** The Council has prepared a plan for the preparation of accounts under IFRS, though progress on this has been limited so far. There have been briefing sessions for the Finance department. Officers are meeting to consider IFRS further, and are intending to prepare a more detailed plan to enable the Council meet these requirements.
- 30** A great deal of work will be required in the run up to preparing the 2010/11 accounts in order to establish and collect the information required and to account for it under the new accounting standards. The Council will need to keep progress on IFRS implementation under review and ensure that appropriate resources are allocated to it to ensure successful implementation.

Value for money and use of resources

I considered how well the 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 Council 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

- 31** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 32** 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.
- 33** The Council's use of resources theme scores are shown in Table 3 below. The Council compares well against the harder test that the revised Use of Resources approach sets. It has in place necessary processes and clearly demonstrates outcomes, with performance and financial aspects being reported in an integrated way.

Table 1 Use of resources theme scores

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

-
- 34** The findings and conclusions for the three themes, and the underlying KLOE, are set out in my Annual Governance Report. The key theme findings are summarised below.

Managing finances

- 35** The Council demonstrated adequate financial planning in 2008-09. However, at the year end there were overspends of £105k on capital, and £323k on revenue, which were met from reserves. The annual treasury performance review demonstrated implementation of a successful treasury strategy and above benchmark returns on investments. No investments were made in banks in default. The Council has assessed the impact of the economic downturn on its 2009/10 budget. However recent discussions with the finance department have indicated that the impact of the recession has hit harder than was initially anticipated when the 2009/10 budget was set. The Council is now projecting a forecast overspend of £600k for 2009/10.
- 36** The Council has a sound understanding of its costs and performance. Costs are comparable with similar councils, although performance in some services is mixed. There are some areas of higher spending when compared to other councils, but these are in line with stated priorities and the investment generally results in improved services.
- 37** The Council's financial reporting is adequate. The 2008/09 accounts met statutory requirements and adequate working papers were provided in most areas. The audit resulted in one material amendment to the accounts and several non-trivial amendments. The Council produces user friendly summary accounts on its website.

Governing the business

- 38** Overall, the Council meets the requirements of procurement and equalities legislation and has achieved improvements in value for money from some significant procurement exercises. Commissioning and procurement is based on a good understanding of the marketplace, but the Council has had limited success at influencing and developing the supply market. Local people, partners and suppliers have been involved in commissioning services and this has led to some success in improving customer experience by planning and design of future services.
- 39** The Council has established procedures for reliable data quality and to support decision making across the organisation, and works closely with partners to ensure shared data is reliable and fit for purpose. However, ownership of information needs to be strengthened.
- 40** The Council promotes the principles of good governance. It has a complaints procedure which is accessible to the public. The standards committee is effective but could be more proactive; for example it has not reviewed its own effectiveness or produced an annual report. In 2008/09, the Monitoring Officer was not part of the management team, and no executive member had a responsibility for standards.
- 41** The Council adequately manages its risks, but does not have a specific partnership risk register in place, except for in relation to the benefits service provider. The risk of fraud and corruption is managed by communication with members and staff through induction training, posters and newsletters. Fraud work is generally reactive rather than proactive, with the exception of National Fraud Initiative (NFI) and benefits fraud work.

Value for money and use of resources

42 There are adequate internal control procedures in place for key systems. The Council has a corporate business continuity plan for 2008-11 which it regularly reviews and tests, and this flows into individual service business continuity plans that are regularly updated. Audit Committee responsibilities are fulfilled by the Policy and Resources Committee, although this is not explicit in its terms of reference.

Managing resources

- 43** The Workforce Development Plan 2009-12, helps the Council employ the right people with the relevant skills, knowledge and capacity to meet its key challenges. Workforce planning is integrated with service planning and the Council has a clear performance management framework in place and procedures to identify skills gaps
- 44** In January 2009, the Council was awarded Investors in People (IiP) for the second time and has been recommended as an IiP Champion. The Council is actively working with partners to target recruitment at under represented groups and has an adequate approach to equality and diversity. The Council actively engages with staff during periods of organisational change.
- 45** The Council does not have formal arrangements in place for succession planning. Plans are in place to address this as part of the introduction of the full competency framework in 2009/10.

VFM Conclusion

- 46** I assessed your arrangements to secure 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.
- 47** Based on the Use of Resources assessment, which was linked to the criteria set out above, I was able to issue an unqualified conclusion, stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Standing

- 48** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams.
- 49** We reviewed the Council's treasury management arrangements during the year and assessed them as adequate. The Council has now adopted a revised Treasury Strategy for 2009/10, in line with other public sector bodies.
- 50** There are further challenges for policy priorities where patterns of demand for services are changing and Government requirements and expectations evolve. I have reflected on the wider environment, specific issues and risks and the Council's response.
- 51** The financial position of the Council is becoming increasingly challenging.
- 52** Early in 2009, the Council produced a response to the economic downturn and assessed the impact on its 2009/10 budget. However recent discussions with the finance department have indicated that the impact of the recession has hit harder than was initially anticipated when the 2009/10 budget was set. The Council is currently projecting an overspend of £600k for 2009/10 and £1.6 million for 2010/11. The MTFs produced in July 2008 did not project a deficit for 2008/09 or 2009/10, and projected only a small shortfall of £87k for 2010/11. The Council has identified efficiency savings of £558k for 2009/10 and £811k for 2010/11. The projected deficits for 2009/10 and 2010/11 assume that the Council will not achieve the planned efficiency savings targets.
- 53** Useable general fund reserves stood at just over £1m at as at 31 March 2009, with a further £1.3m in earmarked reserves that have been set aside for a specific purpose. If the Council continues to overspend in line with its projections and does not take action to increase reserves, its reserves will be fully extinguished before the end of 2010/11. This clearly represents a significant risk.
- 54** The Council has responded to this situation by employing a financial consultant to evaluate the medium term financial strategy and the levels of reserves.
- 55** I will continue to monitor closely the Council's financial standing when assessing how the Council makes effective use of resources during my 2009/10 audit.

Audit fees

56 Our fees for the 2008/09 audit are set out in Table 2.

Table 2 Audit fees

	Actual	Planned	Variance
Financial statements and annual governance statement	£55,005	£55,005	0
Use of resources	£32,288	£32,288	0
Whole of government accounts	£3,831	£3,831	0
Total audit fees	£91,124	£91,124	0
CAA (less CLG grant)	£6,570	£6,570	0
Certification of claims and returns	Work ongoing	£20,000	-

Closing remarks

- 57** I have agreed this letter with the Head of Finance. I will present this letter at the Policy and Resources Committee on 15 December 2009 and will provide copies to all Members.
- 58** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3

Report	Date issued
Audit and inspection plan	April 2008
Annual governance report	September 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Annual audit letter	November 2009

-
- 59** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council and its staff for their support and co-operation during the audit.

Availability of this letter

- 60** This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website

Debbie Hanson
District Auditor

November 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.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2008

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
