

Annual Audit Letter

East Cambridgeshire District 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).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 The Council is required to prepare and approve its accounts by 30 June 2010. I am responsible for issuing an audit opinion on the accounts by 30 September 2010, which concludes whether the accounts give a true and fair view of the financial position at 31 March and the income and expenditure for the financial year. My opinion is either unqualified (where the accounts give a true and fair view), or qualified (where I have not received enough assurance that the accounts do give a true and fair view).

2 The Council met the deadline for approving its 2009/10 accounts. The accounts were complete and were supported by good working papers, which enabled me to issue my unqualified opinion on 30 September 2010.

3 The accounts were free from material error. Some non trivial errors were identified and were corrected with the exception of two unadjusted errors. These were reported to the Policy and Resources Committee, who agreed with officers' recommendation not to amend the accounts for these errors, as the cumulative effect of these misstatements was deemed to be immaterial.

4 An enhanced reporting framework (International Financial Reporting Standards) is to apply to local authorities accounts in 2010/11. The Council has an implementation plan in place, although this is currently behind schedule.

Value for money

5 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.

6 I concluded that the Council had put in place adequate arrangements and as a result issued an unqualified value for money conclusion for 2009/10.

Audit fees

7 I have reduced the fee for the 2009/10 audit year by £4,704 for the Whole of Government Accounts (WGA) element of the audit. This was because the Council fell into Band 3 this year, and consequently I was not required to audit the Council's WGA return.

Current and future challenges

8 The impact of the recession and reducing the public sector deficit will continue to present a challenge to the Council in the coming financial year. In addition, the Council will need to adapt to policy priorities under a new Government where patterns of demand for services are changing and Government requirements and expectations evolve. At the same time there will be reduced central government funding.

9 The Comprehensive Spending Review stated there would be a reduction in funding across government departments between 2011/12 – 2014/15. Central government revenue grants are to be reduced by 28 per cent with the official local government finance settlement due to be announced in the first week in December, therefore, giving a clearer view on the impact for individual local authorities. The Council are planning on the basis of cuts in Revenue Support Grant of 11 per cent in 2011/12, 6 per cent in 2012/13, 1 per cent in 2013/14 and 6 per cent in 2014/15.

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

10 I issued an unqualified opinion on the Council's accounts on 30 September 2010, thereby meeting the 30 September deadline set within the Accounts and Audit Regulations 2003. In my opinion the financial statements and related notes give a true and fair view. I presented my Annual Governance Report to the Policy and Resource Committee on 28 September 2010. This report included the full details of the issues arising from my audit of the accounts including the adjusted and unadjusted errors that my audit had found.

11 The draft accounts were approved on 28 June 2010, before the deadline specified in the Accounts and Audit Regulations 2003, of 30 June 2010.

12 Working papers supporting the accounts were of a high standard, and responses to queries and requests for additional information were helpfully dealt with by finance staff.

13 The audit identified some non trivial errors which were corrected with the exception of two items which were reported to those charged with governance where it was recommended and agreed that these would not be adjusted as the cumulative effect of these misstatements was deemed to be immaterial. The amendments did not result in any changes to the bottom line figures in the financial statements or notes.

Significant weaknesses in internal control

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

International Financial Reporting Standards

15 The Council will need to prepare IFRS-compliant financial statements under the new Code of Practice on Local Authority Accounting for 2010/11 by 30 June 2011. Applying IFRS will have significant implications for the way in which the Council prepare its annual financial statements, in particular, accounting for fixed assets and leases.

16 Due to the priority of financial planning and budgeting issues, the Council did not begin detailed work on IFRS restatement until March 2010. Although the Council now has a plan in place, it has made limited progress, for example, the Council has not restated its 2009/10 financial statements or considered the implications for its accounting policies in key areas (for example, the componentisation of fixed assets).

Recommendation

- R1** The Council should update its project plan for the production of IFRS compliant financial statements. The Council should:
- ensure all of the tasks necessary to produce IFRS compliant financial statements are identified and scheduled, allowing sufficient time for Members involvement (for example the approval of Accounting Policies); and
 - the Council's progress against its project plan should be monitored by the Policy and Resource Committee on a regular basis.
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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

17 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.

18 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.

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

VFM conclusion

20 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.

21 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

22 I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Managing Finances

23 The Council demonstrates adequate financial planning, integrating financial planning with a detailed service planning process on a medium to long-term basis. The budgeting process has improved in 2009/10, but the Medium Term Financial Strategy (MTFS) did not use sensitivity analysis or scenario planning.

24 A full 'root-and-branch' review of all services to zero-base, has yielded a strengthened understanding of the Council's financial situation and a more realistic budget base.

25 The 2010/11 budget incorporates improved consideration of risks and sensitivities of estimates. The Council has a sound understanding of its costs and performance and a well-managed capital programme linked to priorities.

26 The Council has produced and is delivering on an efficiency plan to achieve the cumulative Efficiency Review target of 7.5 per cent gains over the three-year period.

27 The Council has adequate financial reporting. Financial reporting to policy committees is clear, relevant and concise, and has been shown to support strategic decision making.

Governing the Business

28 The Council has effective procurement practices, meeting the requirements of procurement and equalities legislation. Improvements in VFM have been made from some significant procurement exercises.

29 Procedures are in place to ensure reliable data quality and to support decision making across the organisation. The Council works closely with partners to ensure that shared data is reliable, and to develop performance management arrangements for the LAA.

30 The Council actively promotes the principles of good governance. The Code of Corporate Governance follows the joint guidance issued by CIPFA, SOLACE and the LGA and is reviewed annually.

31 The roles and responsibilities of councillors, Chief Executive and senior management are clearly defined. There are clear Codes of Conduct. Governance and management arrangements in place at the Council as well as partnerships.

32 The Council manages its risks at a basic level. Service plans identify risks facing individual departments. The External Partnerships Review Committee scrutinises partnerships the Council is involved in and risks relating to them, but there is no specific partnership risk register in place except for the shared benefits service provider.

33 The Council manages the risk of fraud and corruption and ensures sufficient communications with members and staff to assist in prevention. The Council has adequate internal control procedures for key systems and an effective and adequately resourced internal audit function.

Managing resources

34 The Council is making adequate use of its natural resources. The Council has worked with the Carbon Trust to establish a baseline for its carbon footprint. Although the Council does not have an overall strategy to reduce its use of natural resources, it can demonstrate savings in energy usage.

Approach to local value for money work from 2010/11

35 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.

36 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.

37 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 standing

38 The recent economic downturn has had a significant impact on public finances and the bodies that manage them. This will provide a significant challenge to the Council over the next few years.

39 Following the government's recent spending review, central government revenue funding to local government is set to decrease by 28 per cent over the spending review period (more than 7 per cent a year in real terms, with the majority impacting in the first two years). Capital funding from central to local government will reduce by 45 per cent. The impact on individual local authorities will be known when the provisional local government finance settlement is published in November or December 2010.

40 Alongside reductions in the level of central government support, it is unlikely that the Council will experience significant growth in key income streams such as planning and building control fees and commercial rents. In 2009/10 the Council had to revise its budget to account for less than expected income from these sources by £638,000.

41 The Council did make an underspend of £322,000 against its original budget in 2009/10 and reported year-end general reserves of £1.4 million, however, these are unlikely to be sufficient to close the gap on savings needed to meet funding shortfalls. In addition, there will be a council tax freeze in 2011/12, although, funding will be available to support this.

42 The Council is taking steps to address these challenges and is currently revising its MTFs with the support of Improvement East.

43 The Council's financial standing is an area I will continue to monitor and is likely to figure prominently in the programme of work I develop early next year to discharge the VFM element of my statutory responsibilities. Notwithstanding the steps the Council has already taken, it will need to reassess the level and timing of savings required, as the implications of the local government finance settlement become clearer later this year.

Closing remarks

44 I discussed and agreed this letter with the Head of Finance on 24 November 2010. I will present this letter at the Policy and Resource Committee on 21 December 2010 and will provide copies to all Council Members.

45 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 Fee Letter	April 2009
Opinion Audit Plan	March 2010
Annual Governance Report	September 2010
Annual Audit Letter	November 2010

46 The Council has taken a positive and helpful approach to our audit. I wish to thank officers and Members for their support and cooperation during the audit.

Paul King
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£63,416	£63,416	0
Whole of Government Accounts (WGA)*	0	£4,704	- £4,704
Use of resources/VFM conclusion	£26,380	£26,380	0
Total audit fees	£89,796	£94,500	- £4,704

* The Council fell into Band 3 for the purposes of Whole of Government Accounts and therefore we were not required to audit the Council's return, and we refunded the fee.

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.

Appendix 3 Action Plan

Recommendations

Recommendation 1

The Council should update its project plan for the production of IFRS compliant financial statements. The Council should:

Ensure all of the tasks necessary to produce IFRS compliant financial statements are identified and scheduled, allowing sufficient time for Members involvement (for example the approval of Accounting Policies).

The Council's progress against its project plan should be monitored by the Policy and Resource Committee on a regular basis.

Responsibility	Head of Finance
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Priority	High
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Date	
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Comments	
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