

# Annual Audit Letter

Cheshire East Borough Council

Audit 2010/11



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# Key messages

**This report summarises the findings from my 2010/11 audit which I carried out in accordance with the Audit Commission's Code of Audit Practice. It also includes comments on future challenges facing the Council.**

Work under the Code	Key findings
Audit opinion on the financial statements	<p>I issued an unqualified opinion on the Council's financial statements on 30 September 2011. The preparation of the Council's 2010/11 accounts was particularly challenging this year as a result of changes in reporting requirements due to the introduction of International Financial Reporting Standards (IFRS) and the upgrade of its major financial systems, including revenues and benefits. In response, the Council increased the capacity of the finance team to manage these changes.</p> <p>Although its IFRS timetable slipped the Council was largely successful in coping with this change. However the draft financial statements contained two material errors and a significant number of other errors. This resulted in a lot of extra work for both Council staff and auditors. I also did extra work to address weaknesses in controls over general ledger access and the revenues systems.</p> <p>The Council needs to improve its arrangements for preparing accurate accounts and returns if it is to avoid additional fees in the future. A more robust quality assurance process during the drafting of the financial statements could reduce the volume of errors. I made a number of recommendations in my Annual Governance Report (AGR) which have all been accepted.</p>
Arrangements to secure value for money	<p>I gave an unqualified value for money conclusion on 30 September 2011. The Council has proper arrangements in place to achieve economy, efficiency and effectiveness. The Council made significant progress in developing its arrangements in 2010/11. It is now better placed to closely monitor the delivery of its budget and planned savings for 2011/12. In August 2011 the Council published its new Business Planning process for 2012 – 2015. The plan is supported by the new performance management system. The Council is prioritising its resources within tighter budgets by achieving cost reductions and improving efficiency and productivity through the budget setting and challenge process</p> <p>The Council is facing additional budget pressures in 2011/12. Its mid year report forecasts service overspends of £16m. Redial actions are in hand and further plans are being developed to close this gap. Strong leadership and decisive action will continue to be necessary to ensure that in year financial pressures are managed effectively and that planned savings are fully delivered.</p>





# Financial statements and internal control

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

The detailed findings from my audit of the Council are set out in my Annual Governance Report which I presented to the Audit and Governance Committee on 29 September 2011. The report is on the Council's website and can be found by following this link:

[Annual Governance Report](#)

	Key findings
Quality of financial statements	<p>The preparation of the 2010/11 accounts was particularly challenging due to the upgrade and replacement of four major financial systems and the introduction of new reporting requirements under IFRS. In preparation, the Council increased capacity within the Finance team. Although there was slippage in its timetable, the Council was largely successful in restating its financial statements to comply with the new requirements.</p> <p>The financial statements were prepared in line with the statutory deadline and presented for audit on 4 July as agreed at the June 2011 Audit &amp; Governance Committee. My audit identified two material errors and 59 adjusted errors. This error rate resulted in considerable additional work for both the Finance and Audit teams, in order to meet the 30 September accounts deadline. It also delayed the certification of the Whole of Government Accounts return.</p> <p>Stronger quality assurance checks during the drafting of the accounts would improve the standard of the accounts presented for audit and reduce the number of accounts compilation errors.</p>
Weaknesses in internal control	<p>Towards the end of 2010/11, the Council implemented 3 major new revenues and benefits systems to replace 9 existing systems inherited from predecessor councils. During my audit of the financial statements, I found inconsistencies between the year end reports produced by the revenues ledgers used to support the preparation of the financial statements and two major grant claims. In addition, there were inconsistencies between the cash and refunds figures reported by the revenues ledgers and in the main financial ledger. As a result of the differences, I</p>

## Key findings

carried out significant additional work in order to demonstrate that the figures in the accounts were materially accurate.

The Council also carried out a major upgrade of its main financial ledgers during which weaknesses in the operation of controls over access rights to the main accounting system were identified. Further work was undertaken by Internal Audit and my audit team in order to satisfy ourselves that these weaknesses did not lead to unauthorised access to financial information.

The Council is taking action to address these issues in 2011/12.

The following recommendations were made in my Annual Governance report to Members in September 2011.

## Recommendations

### R1 Quality of financial statements

- Council to strengthen its accounts quality assurance processes to ensure the draft financial statements are free from errors and internal inconsistencies

### R2 Revenues reporting

- Council to implement monthly reconciliations for cash and refunds between the revenues ledgers and the main financial ledger
- Council to review consistency and accuracy of year end reports produced by the revenues ledgers

### R3 Access controls

- Council to strengthen operation of access controls to main financial ledger

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The weaknesses in controls and level of errors noted during my audit of the financial statements meant that additional work was undertaken over and above that assumed when setting the original fee for the audit. I have discussed and agreed an additional fee of £25,000 with the Director of Finance and Business Services, to cover some of the costs incurred by the extra work. The revised fee is set out in Appendix 1.

# Value for money

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**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.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<b>The Council has proper arrangements in place to secure financial resilience.</b>	<p>The Council has effective arrangements for managing financial risks and maintaining a stable financial position. The key elements of the Council's medium term financial plan are included within the annual budget report. This included a savings target of £7.7m for 2010/11. The Council revised its Sustainable Community Strategy and Corporate Plan and the corporate priorities set out in these documents were used to inform the budget cycle for 2011/12.</p> <p>During the year the Council experienced significant budget pressures particularly in Children's and Adults services. This led to further plans to deliver additional savings. At the year end, the net service overspend was £9.5m before taking account of under spends in other areas of £7.3m. The Council planned to repay £4.3m to general fund reserves during the year. This fell to £2.3m at the year end mainly because of the net service overspend. The reported closing balance on the general fund is £12.5m. This is higher than forecast during the 2011/12 budget setting round but does not fully cover the Council's assessed financial risk of £14.7m. By end of 2011/12, the Council plans to increase its general fund to £15m.</p>

Criterion	Key messages
<p><b>The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p>	<p>In July 2010, the business planning cycle for 2011/14 was launched. It aims to produce a single integrated business plan and budget setting out how the Council would achieve its objectives both in budgetary and service delivery terms. An efficiency group, comprising officers and members, was established to lead the process and to provide challenge around the Council's transformation programme.</p> <p>The Council is prioritising its resources within tighter budgets through its budget setting and challenge process. The 2010/11 budget included a number of proposals to improve efficiency and / or reduce costs. Additional financial pressures during 2010/11 required further action to contain costs and find extra savings of £10.5m. This was done through a combination of service redesign and short term measures.</p> <p>Delivery of the savings targets was monitored by the corporate management team on a weekly basis against remedial action plans drawn up by directorates. These processes operated throughout the year but it is difficult to clearly establish what proportion of the total savings delivered relates to efficiency projects as opposed to corrective action taken to manage the in year pressures. For 2011/12 the Council has implemented a traffic light system to report progress against agreed savings targets.</p> <p>The Council is proactive in reviewing its services and comparing performance and costs with other organisations. This approach is set out in the Council's VFM strategy. The Council has already identified gaps in available benchmarking data and is looking to develop service specific benchmarking.</p> <p>In August this year OFSTED reported on its inspection of the Council's Looked after Children and Safeguarding services. Overall, these services were assessed as adequate. The inspection team recognised the additional financial investment made by the Council. Action taken has resulted in improved performance and practice in most safeguarding areas.</p>
<p>Since issuing my report on the Value for Money conclusion, the Council has published its mid year financial report. It forecasts a £16m overspend in service budgets, before contingencies and other remedial actions, and a £2m reduction in the level of the general fund balance by the year end. I discuss the impact of the financial pressures facing the Council below.</p>	



# Current and future challenges

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<p>Economic downturn and pressure on the public sector</p>	<p>The economic downturn and reductions in Government funding are having a significant impact on local government. Central government funding for the Council is reducing by £11.2m over the next three years. However further changes, particularly in relation to schools funding and business rate allocations, could change this position significantly. Any further changes will be challenging as the Council anticipates that it will need to deliver savings of £29m over the same period. Plans are in place to deliver more for less in the future but growing demand for services particularly in Adults and Children's services is placing further pressure on the Council's finances.</p> <p>At the end of September 2011, the Council is forecasting a service overspend of £16m for 2011/12. Despite achieving £15.1m in savings during the first half of the year, there has been significant slippage in delivering savings across the Council.</p> <p>For 2011/12, the Council initially planned to increase its general fund balance to £15m by the year end. This would bring reserves back in line with the minimum level considered necessary to manage the Council's financial risks. If the current level of service overspends remains at £16m the closing general fund balance will fall to £10.5m. This will adversely impact on the Council's financial resilience and its ability to manage its finances.</p> <p>The Council has arrangements in place to identify financial pressures and develop and monitor the delivery of its savings plans but slippage in implementing planned savings this year will have a continuing impact on future financial years. Swift action will be required to implement long term solutions as well as the shorter term measures taken to manage the current year position.</p>
<p>Joint arrangements / shared services</p>	<p>Following local government re organisation in 2009, the Council shared 32 services with Cheshire West &amp; Chester Council. Many of these were transitional arrangements and have since ended. Ten longer term shared service arrangements will continue into 2012. The councils are working together to develop separate legal entities for some services, for example, human resources. The main challenges are extending collaboration to include</p>

other local authorities, achieving further efficiencies and resolving some of the operational difficulties with the current arrangements.

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# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Director of Finance & Business Services. I will present this letter at the Audit Committee in January 2012. The Council will provide copies to all members.

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.

Report	Date issued
Audit fee letter	April 2010
Opinion audit plan	January 2011
Annual Governance Report	September 2011
Annual Audit Letter	November 2011

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

Judith Tench

District Auditor

November 2011

# Appendix 1 - Fees

Scale fee	£397,500
Rebates: IFRS transition	-£22,297
Reduction in work due to stopping of CAA	-£12,750
<b>Sub total</b>	<b>£362,453</b>
Additional charge for extra work on Accounts	£20,000
Additional charge for extra work on WGA	£5,000
<b>Total</b>	<b>£385,453</b>

The following areas required significant additional audit work:

- Collection Fund
- Access controls to Oracle Financial Ledgers
- Checks on revised sets of financial statements
- WGA.

# Appendix 2 - Glossary

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## **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 financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **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 resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion





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