



The Annual Audit Letter for Cheshire East Council

Year ended 31 March 2013

18 October 2013

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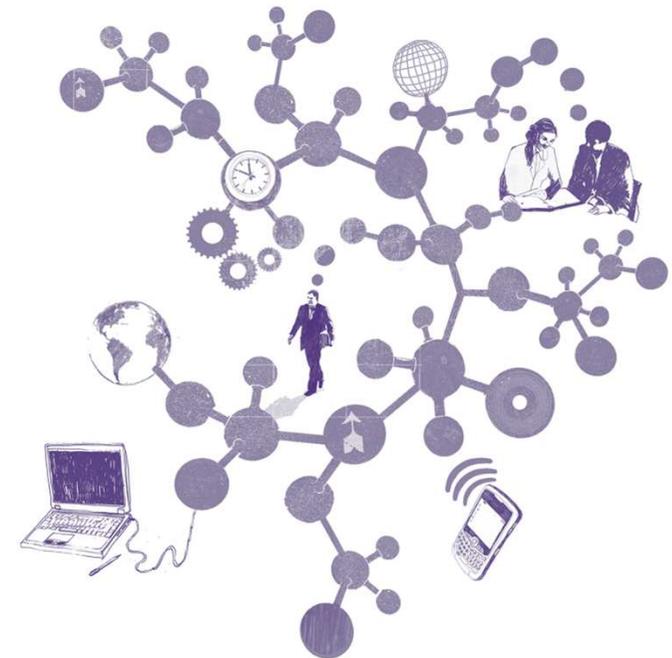
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Section 1: Executive summary

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Executive summary

Purpose of this Letter

Our Annual Audit Letter summarises the key findings arising from the following work that we have carried out at Cheshire East Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 27 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 28 March 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

Our audit conclusions in relation to 2012/13 are:

- An unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year. The Council presented its draft accounts for audit by the national deadline. The accounts were supported by good quality working papers.
- The Council has - in all significant respects - put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013. We have qualified that conclusion due to weaknesses in the Council's:
 - arrangements to procure goods and services;
 - understanding of costs and performance; and
 - arrangements to develop business proposals and manage significant projects. The Council made significant improvements to its arrangements to develop business proposals and manage major projects during the latter part of 2012/13. These improvements address the weaknesses reported by the Audit Commission last year but were not in place for the whole of 2012/13.
- An unqualified opinion on the Whole of Government Accounts return.
- We certified the NNDR grant claim without amendment. Arrangements are in place to certify the Housing Benefit claim, Teacher's Pension return and Transport grant by the end of November.

Key messages

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

- The Council managed its 2012/13 finances within its revised net revenue budget of £239m and achieved a small surplus of £300,000. This is an improved outcome when compared with overspends in previous years.
 - The Council had an ambitious savings target of £21.7m for 2012/13, with a challenging delivery plan. The Council delivered this plan, alongside emerging in-year pressures, by the identification and implementation of appropriate mitigation plans secured by the year end.
 - Corrective action and savings in the final quarter of the year, together with additional funding within adults directorate, led to an improvement of £5.8m in the overall outturn position compared to the third quarter. The planned contribution of £7.3m to general reserves was exceeded by the £300,000 surplus. The Council's general reserves are now £19.0m.
 - Like many others the Council faces continuing tough times to achieve financial balance. A Medium Term Financial Plan (MTFP) is in place covering the period 2013 to 2016. It includes budget shortfalls of £22.4m over the next two years.
 - Following governance failings reported by internal audit, the Council's previous auditor and the designated independent person's (DIP) review of Lyme Green there have been a number of changes in senior staff. The timing of these changes meant that three of the Council's most senior officers were interim appointments for large parts of 2012-13. Under the leadership of the interim Chief Executive the management team made good progress to address the reported issues.
 - The new Chief Executive will complete the organisation re-structure during 2013-14. This is an important step towards addressing the weaknesses noted in the Council's annual governance statement for 2012-13. It is also a key part of its vision to become a commissioning body.
- The Council has ambitious plans to become a commissioning body over the next few years. It has already created Tatton Park Enterprises - to manage the park's catering services - and the new development company, Engine of the North. The Council is also developing its proposals to create a leisure trust and other arms length bodies to deliver waste and bereavement services. The Council intends these new bodies to be wholly owned companies remaining under its control.
 - As it moves towards differing models of delivering services the Council will require robust governance and risk management both itself and also its arms length service providers. The Council also needs to ensure that its policies, procedures and decision making processes remain fit for purpose during this period of significant change. This is important to maintain proper governance and stewardship of public money, help ensure that any new bodies operate successfully and, importantly, demonstrate value for money.

The recommendations that flow from our audit work were set out in our audit findings report presented to the Audit and Governance Committee in September 2013. The agreed action plan will be considered by that Committee in November.

Acknowledgements

This report has been agreed with the Council's Chief Executive and Chief Operating Officer. It will be presented to the Audit and Governance Committee in November and to the Cabinet in December 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: *Audit of the accounts*

01. Executive summary

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Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 30 June 2013, in accordance with the national deadline. Appropriate working papers and finance staff were made available from the start of the audit fieldwork, which commenced on 15 July 2013. Council Quality Assurance processes for producing the accounts have much improved for 2012/13, continuing the trend from 2011/12 and this has been reflected in the good quality of draft accounts provided for audit.

Issues arising from the audit of the accounts

The Council agreed to amend the draft accounts for all errors raised during the audit. None of the errors impacted on the Council's general fund balance.

A number of the misclassification and disclosure errors in the draft accounts arose from the incorrect treatment of land associated with the Council's Extra Care Housing PFI scheme. We also identified some other potential differences in the accounting treatment of this PFI scheme. The Chief Operating Officer has agreed to review these differences during the 2013/14 accounts preparation and audit.

Annual Governance Statement and Annual Report

We have reviewed the content of the Council's Annual Governance Statement and Annual Report and concluded they contain the necessary disclosures and are not inconsistent with our knowledge of the Council's affairs.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit and Governance Committee at the Council). We presented our report to the Audit and Governance Committee on 27 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

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Value for Money

Scope of our work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Local context

The Council's 2012-13 net budget of £239m was set in the context of significant funding reductions and the need to generate some £21.7m in savings in-year. As expected, the Council experienced greatest cost pressures within adults, (£7m), and children's, (£8.9m), services. At the year-end the Council reported a small underspend of £300,000 - having made its planned contribution of £7.6m to its general reserves. The Council's general reserves of £19m are now more in line with the level of financial risk set out in its medium term financial plan.

The challenging financial climate has continued to shape the Council's borrowing strategy - to use cash balances to fund capital expenditure rather than raise new loans. This approach has been used successfully for a number of years given the low interest rates available for cash investments.

The Council spent £51.4m, (61%), of its approved capital budget of £83.8m for 2012-13. This underspend followed a comprehensive review of the programme during the year to focus upon initiatives with the highest priority and closest links to the Council's strategic objectives.

Following governance failings reported in June 2012 there have been a number of changes in senior staff. The timing of these changes meant that three of the Council's most senior officers were interim appointments for large parts of 2012-13. Under the leadership of the interim Chief Executive the management team made good progress to address the reported issues.

The new Chief Executive will complete the organisation re-structure during 2013-14. This is an important step towards addressing the weaknesses noted in the Council's annual governance statement for 2012-13. It is also a key part of its vision to become a commissioning body.

Value for Money

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

The Council's current arrangements for securing financial resilience are satisfactory. Since 2009 the Council has faced significant financial pressures and continues to do so in 2013/14. Over that time the Council's arrangements have continued to evolve and a number of improvements were made in 2012/13. For example agreeing the 2013-16 Medium Term Financial Plan following a refresh of the budget setting process.

Further improvements are being made in 2013/14 including the introduction of a Financial Resilience Update Report to Cabinet in July 2013.

Our work has also identified areas where further improvements can be made:

- Budget monitoring and reporting processes continue to develop. But more needs to be done to ensure that tough decisions are taken when setting the budget rather than relying on services to deliver savings in year.
- The Council recorded a small underspend for 2012/13. The outturn for the first quarter of 2013/14 indicated that services were already facing budget pressures of £7.5m, with mitigation action identified to cover £4.3m. Realistic forecasting is essential if the Council is to maintain control over its budget and avoid continuing to rely on remedial action late in the year.

Further details are provided in our Financial Resilience report, September 2013.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within.

The Council's current arrangements for prioritising resources are satisfactory in all significant respects.

The Council Plan, Sustainable Community Strategy and new 3 Year MTFP sets out its core purpose, reflects the changing role of local government and responds positively to the challenge of major funding reductions - in line with national and local policy changes.

The Council's business planning process together with its budgeting process provide the main mechanisms for identifying savings and growth areas. But weaknesses in the application of these processes undermined its ability to show that it was providing value for money throughout 2012/13. The Council made significant improvements to its business planning processes and its arrangements to manage major projects during the latter part of 2012/13. These improvements address the weaknesses reported by the Audit Commission last year but were not in place for the whole of 2012/13.

Significant progress has been made to support transparent decision making subject to appropriate risk management, challenge, scrutiny and review. The gateway model was introduced in August 2012, in part, to respond to the criticisms arising from the Lyme Green reports. A number of other improvements have also been made since late 2012 including:

- improvements to the business planning process;
- review and improvement of the council's performance management framework; and
- updated guidance and monitoring over the use of delegated decision notices.

Value for money

In March 2013 OFSTED inspected the Council's arrangements for the protection of children. The arrangements were assessed as inadequate. The Council responded positively to the report with actions to address many of the issues raised already in place when it was published. For example, the new Cheshire East Consultation Service now manages all contacts for children's services. It went live last April and will help address a number of the issues raised by OFSTED.

No other significant issues were raised by OFSTED or other agencies that impact upon the vfm conclusion.

Our work has also identified areas where further improvements can be made:

- The Council revised its capital budget in December 2012 to £75m. But as at 31 March 2013 had spent £51.4m – an underspend of £23.3m. While the gateway process is improving capital planning processes there is more to do to ensure the Council can accurately set and manage a realistic capital budget. Inevitably this will need members to take tough decisions about what the Council can and cannot do and live within its means.
- Efficiency and savings plans are reported in sufficient detail in the quarterly performance reports to members. However these reports lack detailed information on unit costs and limited use is being made of benchmarking data. As a result the Council is less able to monitor achievement of efficiencies and reductions in unit costs, and understand and consider any impact on service quality and provision. The Financial Resilience update reports introduced in July 2013 are starting to address these gaps.
- The Council recognises that its approach to procurement needs to improve and has engaged consultants to undertake an initial review leading onto a detailed project intended to transform its' processes. At this early stage the Council are aiming to secure savings of some £1.85m.

- The Council's vision is to become a commissioning authority in the medium term. As it moves towards differing models of delivering services the Council will require robust governance and risk management for both itself and its arms length service providers. The Council also needs to ensure that its policies, procedures and decision making processes remain fit for purpose during this period of significant change. This is important to maintain proper governance and stewardship of public money, help ensure that any new bodies operate successfully and, importantly, demonstrate value for money.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013, except for weaknesses in its:

- arrangements to procure goods and services.
- understanding of costs and performance.
- arrangements to develop business proposals and manage significant projects. The Council made significant improvements to its arrangements to develop business proposals and manage major projects during the latter part of 2012/13. These improvements address the weaknesses reported by the Audit Commission last year but were not in place for the whole of 2012/13.

Overall, the Council made significant improvements to its arrangements during the course of the year and ended in a much better position than it started. It delivered the 2010/13 budget and achieved a small surplus. Further improvements have been made since April 2013. The Council now has access to better information and processes to help it set out how it is prioritising resources and to demonstrate efficiency and improved productivity.

Section 4: Certification of grant claims and returns

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Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

For 2012/13 we plan to certify claims for Housing Benefits, National Non Domestic Rates (NNDR), Teacher's Pensions and a Transport grant. At the time of writing we have certified the NNDR return and expect to certify the remaining claims by the end of November, according to the deadline set by the issuing government department. The NNDR claim was certified without amendment on 20 September 2013 relating to £126.9 million contribution to the NNDR pool.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Key messages

Our work on certification of grant claims is on-going. Our work to date has not identified any issues which we wish to highlight. The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit. There were no fees for the provision of non audit services.

Fees excluding VAT

	Per Audit plan £	Actual fees £
Audit Fee	205,050	205,050
Grant certification fee*	41,600	tbc
Total fees	246,650	246,650

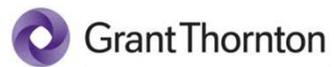
* Grant certification work is on-going and £41,600 is our current estimate. The final fee will be reported to the Audit and Governance Committee later in the year in our annual certification report

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	28 March 2013
Audit Findings Report	27 September 2013
Certification report	To follow – December 2013
VfM – Financial Resilience Report	19 September 2013
Annual Audit Letter	17 October 2013



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