

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 25 September 2014
Report of: Chief Operating Officer
Title: Audit Findings and Action Plan, 2013/14
Portfolio Holder: Councillors Peter Raynes and Barry Moran

1.0 Report Summary

- 1.1. Grant Thornton expect to provide an unqualified opinion on the accounts by the statutory deadline of 30 September. They will also provide an unqualified conclusion on the Council's arrangements for securing value for money. The auditor's report recognises the significant progress the Council has made to address the weaknesses set out in their qualified conclusion last year. Grant Thornton said:

Audit Opinion

It is pleasing to report that we anticipate that we will provide the Council with an unqualified opinion, in line with the reporting timescale required under the Accounts and Audit (England) Regulations 2011.

Value for Money conclusion

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified vfm conclusion. This is an improvement from the previous year's qualified vfm conclusion and the Council is to be commended for the improvements made to its arrangements during the year.

- 1.2. This independent validation of the improvements the Council has made reflects its ongoing commitment to develop and embed its arrangements for securing and demonstrating value for money and to improve financial reporting. The auditors have also made a number of recommendations for further improvement which the Chief Operating Officer has agreed to implement.
- 1.3. This report sets out the Council's management response to the 2013/14 Audit Findings Report presented by Grant Thornton to the Audit and Governance Committee on 25 September 2014. Specific improvement actions are proposed to address the auditors' recommendations including target dates for implementation.

2.0 Recommendations

- 2.1. The Committee is asked to note and endorse the management responses and action plan set out in Appendix 1.

3.0 Reasons for Recommendations

- 3.1 The external auditors are required under the Audit Commission's Code of Practice to report whether, in their opinion, the Council's financial statements present a 'true and fair view' of the financial position for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. They are also required to reach a conclusion on the whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).
- 3.2 In arriving at their opinion and conclusion for 2013/14, the auditors have made a number of specific recommendations for improvement. The Chief Operating Officer and Corporate Leadership Board have accepted all of the auditors recommendations and assigned officers responsible for their implementation within an agreed timescale. It remains important that the Council addresses these issues in order to sustain the positive progress already made - and acknowledged - by the auditors. These improvements will support the Council's commitment to continuing to strengthen its financial reporting, stewardship and governance arrangements.

4.0 All wards Affected

5.0 Policy Implications – none

6.0 Financial Implications (Authorised by the Chief Operating Officer)

- 6.1. The Chief Operating Officer expects any cost implications arising from the recommendations in this report will be contained within existing budgets.

7.0 Legal Implications (Authorised by the Head of Legal Services)

- 7.1. There are no specific legal implications arising from the recommendations in this report.

8.0 Risk Assessment

- 8.1. Failure to satisfactorily address the audit findings and recommendations from 2013/14 may expose the Council to adverse comments from its auditors in the current and future financial years. This could also lead to reputational damage and the possibility of increased audit fees. The management responses in Appendix 1 are intended to avoid this outcome, improve overall financial stewardship and therefore mitigate this risk.

9.0 Background

9.1. The Council's auditors, Grant Thornton presented their annual audit findings report to the Audit & Governance Committee on 25 September. These findings formed the basis of their audit opinion on the financial statements, and value for money conclusion. Grant Thornton expect to provide an unqualified opinion on the accounts by the statutory deadline of 30 September.

9.2. Grant Thornton will also provide an unqualified conclusion on the Council's arrangements for securing value for money. The auditor's report recognises the significant progress the Council has made to address the weaknesses set out in their qualified conclusion last year:

The Council has demonstrated improvements in its arrangements, particularly where weaknesses were highlighted in previous audits and we are pleased to confirm that we intend to issue an unqualified VfM conclusion.

9.3. This independent validation of the improvements the Council has made reflects its ongoing commitment to develop and embed its arrangements for securing and demonstrating value for money. The auditors specific recommendations for improvements are set out in Appendix 1. Their recommendations cover three main areas:

- Financial statements - seven recommendations:
 - two in respect of valuation of and accounting for property, plant and equipment;
 - three regarding the accounting treatment of capital receipts including capital grants and receipts in advance;
 - one in respect of the Council's PFI scheme; and
 - one relating to the likely requirement to produce group accounts in 2014/15.
- IT Controls – two recommendations.
- Value for Money – eight recommendations:
 - Financial Governance, three recommendations regarding the Audit and Governance Committee, use of appropriate unit cost data and capital planning;
 - Financial control, one recommendation regarding the governance and risk management arrangements of the Council's new service delivery vehicles;
 - Prioritising resources, one recommendation regarding the ongoing development of the Better Care Fund with the Council's NHS partners; and
 - Improving efficiency, three recommendations regarding data quality, procurement and the Council's improvement plan for the protection of children.

- 9.4. In developing responses to these recommendations, managers have paid due regard to the need for actions proposed to be robust, realistically deliverable within the agreed timescales and also proportionate. It is also important that these actions complement and build on the substantial progress that has already been made.
- 9.5. The auditor's report references specific improvements in the Council's arrangements including:
- Managing its finances effectively for 2013/14, within its revenue budget of £260m, achieving a surplus of £0.9m, increasing its general reserves to £19.8m. The Council also created new earmarked reserves of £12.4m in addition to the £0.486m elections reserve set up in October 2013.
 - Consolidating improvements to its financial planning and controls, updating its medium term financial strategy, identifying measures to address the £8.3m net budget deficit and approving a balanced budget for 2014/15.
 - Completing the appointments to its senior leadership team, after a period of key posts being filled on an interim basis.
 - The Council's three year plan highlighted the five 'Outcomes', the performance management framework identifies how the Council is delivering each outcome and the medium term financial strategy shows how that performance is funded. Specific project management arrangements for the development and monitoring of programmes of financial significance or particular risk are also now fully in place.
 - The Council collected 98.1% of council tax due and 98.3% of business rates (upper quartile performance).
 - The Council has a strong local tax base and lower dependence on government grant. The budget report for 2014/15 highlights that the funding for Council Services from Council Tax and Business Rates increased to over 75% of the total requirement. This reduces the Council's exposure to the risk of reductions in Government grant funding. However the resources available for service expenditure may still fluctuate, particularly local funding from business rates
 - The Council's long term borrowing ratio (as a percentage of tax revenue) was the lowest of the comparator group in 2012-13 at 0.61, (also in 2011/12) and reduced slightly to 0.59 on the basis of 2013/14 figures. The Council's capital financing requirement exceeds the amounts actually borrowed, the shortfall is funded from cash balances. Borrowing of £6m has been repaid in 2013/14 and no new external loans were taken out. This is a deliberate and planned strategy.
 - The balance attributed to schools at 31 March 2014 is £8.8m. The key indicator shows that 5% of the dedicated schools grant allocation remained unspent at the end of the year compared to 7% in 2012/13 (2012/13 average of 6%) - an indication that schools are retaining appropriate levels of reserves.

- Total employee expenditure has continued to reduce from £306.3m in 2011/12, £287.1 million in 2012/13 to £261.6 million in 2013/14. This reduction of 8% on costs reflects a 5% reduction in the number of people employed by the Council (headcount per Final Outturn review of Performance 2013/14). The Council has a number of key workforce development projects underway to support its transformation of the way that services are delivered. The Senior Management Review is now complete and expects to achieve savings of £5m by 2014/2015, one year ahead of schedule.
 - Members receive comprehensive financial management information through budget setting and performance reports, linking back to the Council's Outcomes set out in its Three Year Plan. This level of reporting enables Members to have an oversight of performance against the budget.
 - Financial and performance reporting is underpinned by a detailed understanding by portfolio holders of their service areas, including progress against efficiency plans. Briefings to all members have been provided at key stages throughout the year.
 - The Council continues to strengthen its risk management framework, with a risk management policy, risk assessment, monitoring and reporting arrangements in place.
- 9.6. The management responses to the specific recommendations made by Grant Thornton are presented in Appendix 1. These actions will embed, sustain and complement the range of positive developments that are already in place. The Council's main aim is to continue to provide the quality services that its residents and businesses need off a reducing cost base compared with previous years. The actions agreed in this report target continued improvements to the Council's overall financial governance and stewardship of the organisation.

10.0 Access to information

- 10.1. The background papers relating to this report can be inspected by contacting the report writer:

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