

Audit & Standards Committee

16th November 2011

Annual Audit Letter 2010/11

Recommendation

That the Committee considers the Audit Commission's Annual Audit Letter 2010/11.

1.0 Introduction

- 1.1 Following the completion of their annual audit, the Audit Commission produced a report summarising their findings. Attached is the Audit Commission's report highlighting their findings from the 2010/11 audit, including a conclusion on value for money.
- 1.2 The key messages from the report are that an unqualified audit opinion on the Council's Statement of Accounts was given, and there are satisfactory arrangements in place to secure economy, efficiency and effectiveness.
- 1.3 Representatives from the Audit Commission will be at the meeting to answer any questions that members of the Committee may have on the details of the report.

2.0 Timescales associated with the decision/Next steps

- 2.1 It is recommended that the Committee considers the issues raised in the Annual Audit Letter and, if it considers that any further action is needed, makes any recommendations including proposed timescales.

Background Papers

None

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Annual Audit Letter

Warwickshire County Council and Pension Fund

Audit 2010/11



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Traffic light explanation



Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

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

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

I presented my Annual Governance Report (AGR) to the audit and standards committee on 29 September 2011, two weeks after the intended date. This delay was as a result of difficulties in implementation of the new financial system and the complex accounting requirements of the first year of IFRS. The audit also identified problems with the classification of assets under construction for the second year running. This resulted in an amendment to the accounts of £50 million, although this did not have any impact on the Council's overall reported financial performance.

Despite the difficulties and delays, I gave an unqualified opinion on the accounts on 30 September 2011, meeting the statutory deadline.

Value for money

I gave an unqualified value for money conclusion on the 30 September 2011, stating that Warwickshire County Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

Current and future challenges

Looking forward the Council and Pension Fund has some challenges that it will need to overcome, but these reflect the position faced by most public sector bodies nationally.

Economic downturn and pressure on the public sector

The Council has performed well in achieving a balanced financial position in 2010/11, delivering a £5.9 million underspend at the end of the year. This has required some difficult choices to be made in year, particular to manage down large overspends in both adult social care and children's budgets. The Council failed to meet in full its original savings plans of £9.7 million, with a shortfall of £1.3 million, this was compensated for by the underspends delivered elsewhere.

The Council faces an increasingly difficult financial climate in which it is expected to deliver and sustain services to the required standards. The difficulties faced are well understood by both officers and members and detailed plans are in place to address the financial situation.

The budget for 2011/12 and associated medium term financial plan involved councillors having to take a number of difficult decisions, which included consulting on changes to library services, youth services, adult social care and bus routes. If the required savings are to be delivered in the medium term further difficult decisions will need to be made.

Budget monitoring for quarter one shows a revenue underspend of £2.2 million, and reports that savings of £16.6 million have already been delivered against a savings target of £21.9 million. This is an improvement on the position that was reported at quarter 1 last year, and provides a good base for the delivery of the medium term financial plan.

The medium term financial plan includes a balanced budget for 2012/13 and 2013/14. However potentially £17.4 million further savings may be needed to balance the budget in 2014/15. This is a clear demonstration that the effects of the economic downturn and pressure on public services will continue for many years to come.

Joint arrangements and shared services	The 2011/12 budget resolution made it clear that the Council needs to change its approach to the way it delivers services if it is to be sustainable in the longer term. Its vision is to move towards a business led, commissioning organisation, looking at alternative models of service delivery. The Council has always looked to work with others to deliver savings, however the delivery of this vision will present challenges and require a range of different skills from the officers responsible for both implementing and monitoring the new arrangements.
Income streams	Income streams for the Council are dependent on Government policy, which is continuing its rapid pace of change. The most notable policy impacts are the potential changes to National Non Domestic Rates (NNDR) and the impact of Council Tax benefit localisation. Also the impact on funding for schools following the introduction of academy schools. The latter has not had a significant impact on funding in 2010/11 with only two schools achieving academy status towards the end of the period. This is set to increase with a further 16 schools applying to convert during the first part of 2011/12, with more expected in future years as suggested by Government policy.
Pension Fund	Compared to others, Warwickshire Pension Fund performs well, something that is confirmed by the most recent triennial valuation. The valuation revealed that the value of the Fund's asset of £1,099 million represented 83% of the funding target of £1,328 million at the valuation date of 31 March 2010. However the future of the fund is dependent on the outcome of the current Hutton Review. Key decisions on future employee contribution rates and the accrual rate for the new scheme are yet to be decided by Government, with its decisions expected to have a direct impact on active membership, both current and those in the future.

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.

Overall conclusion from the audit

I issued an unqualified opinion on your financial statements on the 30 September 2011, meeting the statutory deadline.

The closure of the accounts took place against a difficult background of both a new financial system and the first year implementation of IFRS. While officers have worked hard to resolve time consuming issues this has impacted on their ability to produce the same consistently high quality working papers we have received in previous years. In addition to these issues, errors were identified on the classification of assets under construction, an area identified in the AGR last year. The resolution of these errors was complicated and time consuming.

While the adjustments relating to assets under construction are by far the most significant, I have also identified other errors where officers have agreed to amend the accounts. The volume of errors, particularly those of a narrative disclosure nature, has increased from previous years.

These issues resulted in difficulties for officers in responding to audit queries in a timely manner, which therefore increased the amount of time needed on the audit. We have considered it necessary to charge additional audit fee to cover the costs of the delays in the audit. Further details are contained within Appendix 1.

In contrast the audit of the Pension Fund went smoothly with few changes made to the accounts presented for audit.

Significant weaknesses in internal control

We identified weaknesses in internal control relating to the new financial systems, particularly the bank reconciliation and the income system. The year end bank balance was not fully reconciled until the beginning of June. In addition we were unable to find evidenced controls within the new income system and could not therefore use a controls-based audit approach for this area. I reported these weaknesses in my AGR which was presented to the Audit and Standards Committee on 29 September.

Recommendation

Recommendation

R1 The Council should ensure that the recommendations made in the AGR are actioned.

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.

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.

Value for money criteria and key messages

Criterion	Key messages
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation 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.	<p>The level of the General Fund Balance has increased from £8.2 million to £12.5 million, which provides a valuable safety net given the challenge of reduced levels of central government funding.</p> <p>Officers and members have worked hard to agree a budget for 2011/12 which required some difficult choices to be made.</p> <p>The Council's 2011/12 savings plan amounts to £21.9 million. The largest elements of those are £8 million for adult social care, £6.1 million for children's services and £4.3 million relating to Environment and Economy. Further significant savings are required in the medium term; however the Council's plans are well advanced in identifying how these will be made.</p>

Criterion	Key messages
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>There is strong leadership from senior management and members on prioritising resources and spending reductions. The Council has the capacity to deliver the scale of the spending reductions required of it and has a good track record of organisational change and delivering savings.</p> <p>The Council has a good track record of delivering efficiency savings and reports regularly to members on the progress made against savings targets.</p> <p>Overspends and difficulties in meeting the original savings targets in adult social care have been well managed, with the department identifying additional savings in year. Lessons have been learnt about the speed of change that is possible when making significant changes to service delivery and this has been considered on a Council wide basis in the construction of the 2011/12 budget.</p>

Closing remarks

I have discussed and agreed this letter with the Head of Finance. I will present this letter at the Audit and Standards Committee on 16 November 2011 and will ensure that copies are provided to all councillors.

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 – Main audit	April 2010
Audit Fee Letter – Pension Fund	May 2010
Audit Opinion Plan – Main audit and Pension Fund	April 2011
Annual Governance Report – Main audit and Pension Fund	September 2011
Annual Audit Letter	November 2011

This has been a very challenging year for you and particularly for your finance staff. I wish to thank officers for their support and co-operation during the audit. We will continue to work with them in the coming months to ensure that the 2011/12 audit proceeds as smoothly as possible.

John Gregory

District Auditor

November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Audit fee – County Council	£233,430	£248,430	£15,000
Audit fee – Pension Fund	£37,500	£37,500	Nil
Non-audit work	N/A	N/A	N/A
Total	£270,930	£285,930	£15,000

The proposed audit fee for the County Council of £233,430 was at scale fee and based on the assumptions that the level of risk was consistent with previous years, good quality working papers were available at the start of the audit, and internal audit undertake appropriate work on all material systems. The proposed audit fee also excluded the additional work that would be required to gain assurance over the new financial systems. As reported in the AGR on 29 September 2011 a further audit fee is needed to cover the cost of the additional audit work that has been incurred during the course of the audit. This is proposed as £15,000.

The key reasons for the additional work are;

- assurance needed on the new financial systems;
- additional audit time required to resolve the issues surrounding assets under construction, and
- additional time taken to chase up queries from officers.

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 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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