

Annual Audit Letter

Charnwood Borough Council

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.**

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

Audit opinion and financial statements

I issued an unqualified opinion on your accounts on 27 September 2011.

In my opinion, the accounts give a true and fair view of the Council's financial affairs and of its income and expenditure for 2010/11.

You have good arrangements for the production of your financial statements. Your finance staff provided good quality supporting working papers at the start of the audit visit, they responded promptly to my queries, and they dealt with the transition to IFRS in an effective way.

Value for money

I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission.

- **Financial resilience:** whether you have proper arrangements in place to secure financial resilience.
- **Securing economy efficiency and effectiveness:** whether you have proper arrangements for challenging how you secure economy, efficiency and effectiveness.

I issued an unqualified conclusion stating that you had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources on 27 September 2011.

Current and future challenges

The Council faces severe financial challenges. Significant savings still need to be identified to enable you to deliver quality services with less money.

Economic downturn and pressure on the public sector	<p>The economic downturn is placing greater financial pressures across local government and public sector. In October 2010 the Government set out its plans for tackling the national deficit over the next four financial years. Local government spending will be reduced by some 25 per cent over this period. The target reduction for local government was more severe than for most other parts of the public sector.</p> <p>In common with many local authorities, Charnwood Borough Council will receive significantly less Government funding in the period to 2015. To balance its books the Council must make significant savings over the period 2011-2015.</p> <p>The Council revised its Medium Term Financial Strategy in October 2011. There is still a need to identify reductions in expenditure of approximately £1.2 million per annum by 2014/15, otherwise reserves will run out by 2015/16.</p> <p>The scale of this financial challenge is unprecedented. As reported in my VFM conclusion (page 6) the Council's arrangements in 2010/11 for financial governance were robust. Members will need to ensure that these are used effectively to ensure that strong financial management is maintained.</p>
Housing revenue subsidy system	<p>Changes to the housing revenue subsidy system come into effect on 1 April 2012. Instead of paying a contribution to government you will have to service a debt in the region of £80 million. This cost will be accounted for within the ring-fenced Housing Revenue Account which is nevertheless expected to return a small surplus in 2012/13.</p>
Treasury management	<p>Last year I reported that your officers expected to recover around 80 per cent of the £1 million invested in an Icelandic bank. The accounts for 2010/11 were prepared on the basis of recovering 85 per cent of the investment. The latest bulletin from CIPFA (updated in September 2011) anticipates that 88 per cent will ultimately be recovered.</p>

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 27 September 2011.

My audit identified some errors in the draft financial statements submitted for audit. They related to presentation in the balance sheet and disclosure notes but had no impact on either net expenditure or the net balance sheet position.

2010/11 is the first year that the code of practice for local government accounting is based solely on International Financial Reporting Standards (IFRS), which apply retrospectively. Officers restated all relevant accounting entries in advance of the main financial statements audit. They did a thorough job and my audit only identified minor issues.

Significant weaknesses in internal control

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

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
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>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>	<p>The Authority's 2010/11 outturn position was in line with its budget and with what was reported during the year. The Council maintained its General Fund balance well above its approved minimum level of £1 million.</p> <p>The Council has set a balanced budget for 2011/12.</p> <p>The Council keeps its Medium Term Financial Strategy under review in response to the Comprehensive Spending Review.</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>The Council is on target to achieve defined budget savings.</p> <p>The service delivery programme monitors the delivery of efficiency targets. Generally they are on track.</p> <p>There is a corporate requirement for service managers to benchmark their services and report findings in their service plans.</p> <p>There are a number of shared service initiatives aimed at reducing costs and enhancing services.</p> <p>The Council undertook a 'soft market testing' exercise to assess the likely level of interest that partner organisations might have in working with the Council to develop new methods of service delivery. The Council is now reviewing services on a case by case basis in the light of a service prioritisation exercise.</p>

Closing remarks

Ongoing independent support

During the year we have continued to support the Council by:

- attendance at Audit Committees to inform members about progress on the audit,
- hosting our annual final accounts workshop for finance staff; and
- ongoing development of joint working arrangements including local training on housing benefits testing.

Summary

I have discussed and agreed this letter with the Chief Executive and the Strategic Director for Corporate Services. I will present this letter at the Audit Committee on 6 December 2011 and I will ask for a copy to be sent to all members.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Council during the year.

Report	Date issued
Fees letter	April 2010
2010/11 opinion audit – changes you can expect to see	February 2011
Joint working protocol – financial statements audit	February 2011
Certification of claims and returns – annual report (2009/10)	February 2011
Audit plan	April 2011
Annual governance report	September 2011
Audit opinion, VFM conclusion and audit certificate	September 2011
Certification of claims and returns – annual report (2010/11)	January 2012 (proposed)

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.

Neil Bellamy
District Auditor

November 2011

Appendix 1 – Fees

	Note	Actual (£)	Planned (£)	Variance (£)
Audit fee	1	127,000	127,000	0
Comprehensive Area Assessment (CAA)	2	£0	8,320	- 8,320
Non-audit work	3	1,663	1,663	0
Total		128,663	136,983	- 8,320

Notes

1 – In recognition of the financial pressures that public bodies are facing in the current economic climate, the Audit Commission subsidised the 'one-off' element of the cost of transition to IFRS from 2010/11. You received a refund from the Audit Commission of £7,084. Following the abolition of CAA, the Audit Commission paid a further rebate of £1,824 to you. The rebates are not reflected in the table.

2 – Following the government announcement that CAA was to be abolished the planned fees of £8,320 were not charged.

3 – You asked me to review the 2009/10 annual statement of grant usage in respect of the Social Housing Energy Savings Programme carried out by Charnwood Neighbourhood Housing (for which scheme Charnwood Borough Council is the accountable body).

Certification of claims and returns

The fee for certification of claims and returns is charged at published daily rates. The fee reflects a new Audit Commission requirement to perform a full range of tests every third year, rather than relying on the control environment in all cases. The work is ongoing and my latest estimate is that the fee will be in the region of £36,000 (£36,000 in 2009/10).

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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