



Exeter City Council

Annual Audit Letter 2010/11

November 2011

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1 Introduction and Key Messages

Purpose of this Letter

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work that we have carried out at Exeter City Council (the Council) during our 2010/11 audit. The Letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Responsibilities of the external auditors and the Council

- 1.2 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).
- 1.3 We have been appointed as the Council's independent external auditor by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks, when reaching our Code conclusions.
- 1.5 It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

What this Letter covers

- 1.6 This Letter covers our 2010/11 Code audit, including key messages and conclusions from our work on:
- auditing the 2010/11 year end accounts (Section 2)
 - the accuracy of grant claims and returns to various government departments and other agencies (Section 2)
 - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources, the Value for Money (VFM) conclusion (Section 3).
- 1.7 A list of all the reports issued during the year is provided at Appendix A, whilst Appendix B sets out our actual and budgeted fees for 2010/11.

The Economy

- 1.8 The Government remains committed to reducing the deficit whilst promoting growth and economic recovery. Over the last year, 2010/11, savings of over £1.1 billion have been achieved by working with local government. At the same time, the Government is seeking to reduce top-down government and devolve power and greater financial autonomy to local authorities.
- 1.9 Looking ahead, Government departmental spending is expected to continue to reduce over the next four years to make savings of 33% on resources by 2014-15 (compared to 2010-11 budgets). At the same time, the Government expects to transfer over £6.7bn of funding to local government.
- 1.10 Council tax in England was frozen in 2011/12, and may be frozen again for 2012/13 in partnership with local authorities.
- 1.11 This Letter has been written in the context of the significant change agenda in which the Council is operating, including the ongoing increase in demand for services and the need to generate cash releasing efficiency savings of some £2.4 million in order to achieve a year end balanced financial position for 2011/12.

Key areas for Council action

- 1.12 We have set out below the key areas of focus for the Council for it to further improve arrangements during 2011/12:
- The medium term financial position remains extremely challenging as the Council seeks to maintain financial balance whilst facing significant demand pressures. The reduction in the formula grant of 13.8% has meant £2.4 million of savings are required in 2011/12 to achieve a balanced budget. Whilst the Council has a good track record of managing and achieving its budget, there is a need for continued and formal reporting in the delivery of the savings plan to members. We will continue to review the Council's financial position as part of our 2011/12 audit.
 - The Council should continue to closely monitor the completion of the Royal Albert Memorial Museum (RAMM) project to both revised budget and timescale to minimise the potential for further slippage.
- 1.13 The context for these key messages can be found in this Letter. Management has agreed to the implementation of these recommendations through the action plans included within the individual reports issued during the year, which are included at Appendix A.

2 Audit of Accounts

Introduction

- 2.1 We issued an unqualified opinion on the Council's 2010/11 accounts on 22 September 2011, ahead of the statutory certification deadline. Our opinion confirmed that the accounts gave a true and fair view of Council's financial affairs at 31 March 2011 and of its income and expenditure for the year .
- 2.2 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 Final Accounts Committee at the Council). We presented our Annual Report to those Charged with Governance to the Final Accounts Committee on 22 September 2011 and summarise only the key messages in this Letter. We did not receive any questions or objections on the accounts prior to the audit being completed and the audit opinion signed.

Audit of the accounts

- 2.3 We were presented with the draft financial statements on 29 June 2011, in advance of the 30 June 2011 deadline. The working papers were of a good standard and the financial statements had been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010-11 (the Code), based on International Financial Reporting Standards (IFRS). This represented strong performance as 2010/11 was the first year that local authorities were required to prepare accounts under International Financial Reporting Standards, requiring significant additional work.
- 2.4 As last year, finance staff provided us with a high level of support and were able to deal with our audit queries efficiently and provided timely responses to requests for additional information.
- 2.5 We identified one significant adjustment from our audit work. Whilst it did not affect the reported deficit on the provision of services, it did impact the comprehensive income and expenditure statement. The adjustment related to a difference of £557,500 between the assumed value of assets used by the actuary in the IAS 19 report to scheduled and admitted bodies which was received by the Council after the draft accounts had been prepared. Whilst discrepancies are usually identified each year once the final figures have been established after the year end accounts have been produced, the change this year was material and, as such, we agreed an amendment with officers.
- 2.6 A small number of other adjustments were processed by the Council. These had no overall impact on the Council's reported assets and liabilities.

Financial performance

- 2.7 Given the significant financial pressures faced during 2010/11, the Council delivered its General Fund service plans for a total net cost of £16.40 million, an underspend of £0.86 million against the revised budget of £17.36 million. This was achieved through effective management of spending across Council departments, additional grant funding for concessionary fares, savings arising from the re-tendering of the leisure contract and the ability to capitalise redundancy payments.

- 2.8 Overall, the Council's General Fund balance has increased from £3.84 million to £4.19 million at the year end, equivalent to some 24.9 per cent of the net budget for 2010/11.
- 2.9 Looking forward, the Council's service committee net expenditure budget for 2011/12 was set at £12.86 million, £4.35 million less than in 2010/11. Subsequent to this, supplementary budgets have been agreed that have increased the revised annual budget to £13.0 million. Our review of the latest quarterly revenue outturn report, for the first six months to September 2011, shows that the Council is forecasting an overspend of £384,000 against the revised budget. We will continue to monitor the Council's financial standing, its performance against budgets and delivery of its savings plans throughout the year.

Financial systems

- 2.10 We undertook sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that presented a material risk to the accuracy of the financial statements.
- 2.11 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2010/11 accounts. We also performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that would adversely impact our audit of the accounts.

Annual Governance Statement

- 2.12 We examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and considered whether the statement was in accordance with our knowledge of the Council. We requested that an additional disclosure should be added in respect of the control environment operating at the Council. Following this amendment, we considered the AGS to be satisfactory in terms of content, a fair representation of the Council's operations during the year and in line with the Code.

International Financial Reporting Standards

- 2.13 The Council was required to prepare its accounts for the first time in accordance with International Financial Reporting Standards (IFRS). The IFRS transition at the Council was led by a dedicated project board and a clear project plan was utilised.
- 2.14 The effective operation of the project board and associated plan resulted in a smooth transition for the Council in preparing IFRS compliant accounts and supporting working papers to the agreed timetable. The working papers were of a high standard and there were no significant issues arising from our audit work.

Certification of claims and returns

- 2.15 Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Our certification work is expected to be complete by the end of December 2011 after which we will prepare a separate certification work report, summarising issues from the 2010/11 work, to facilitate continuous improvement.
- 2.16 Based on our work to date for 2010/11, we have identified that the Council's arrangements to prepare and submit claims are generally sound and consistent with previous years.

Investment in Icelandic Banks

- 2.17 In late October 2011, Iceland's Supreme Court ruled on the status of a number of local authorities who had brought a test case to confirm their preferred creditor status, following the collapse in October 2008, of Landsbanki, Kaupthing and Glitnir banks. The ruling confirmed preferred creditor status for the individual Councils in the test case, meaning that they should receive a full pay out before any other creditor.
- 2.18 On the basis of this judgement, and subject to the court ruling applying to non-test cases, Officers believe that Exeter City Council will make a full recovery of £2 million invested with Glitnir, and a recovery of some 95% of the initial investment of £3 million with Landsbanki, plus interest.

3 Value for Money

Introduction

- 3.1 Auditors have a continuing statutory duty under section 5(1)(e) of the Audit Commission Act 1998 (the Act) to satisfy themselves that audited bodies have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. The Commission's Code of Audit Practice (the Code) requires auditors to issue a Value For Money (VFM) conclusion, alongside the opinion on the financial statements, based on criteria specified by the Commission.
- 3.2 In response to the changing external environment and to reduce the audit burden, the Audit Commission revised the approach to local value for money work in late 2010, requiring auditors to give their statutory value for money conclusion based on two reporting criteria:
- arrangements for securing financial resilience; and
 - arrangements for securing economy, efficiency and effectiveness.
- 3.3 Our VFM work is based upon an assessment of the Council's significant VFM risks and we devised a local programme of work based upon this assessment. In addition to reviewing the overall arrangements in place for securing financial resilience and securing economy, efficiency and effectiveness in the use of resources, we undertook a short review of the Council's Project Management Arrangements.
- 3.4 We issued our VFM conclusion on 22 September 2011, at the same time as our accounts opinion, and ahead of the required deadline. We concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.
- 3.5 Prior to giving our VFM conclusion, we set out the basis of this conclusion and the results of our assessment against the use of resources framework, in our report presented to the Final Accounts Committee on 22 September 2011.

Review of Project Management Arrangements

- 3.6 Following our initial risk assessment of the Council's arrangements for securing economy, efficiency and effectiveness, we identified the Council's arrangements for project management as a specific area for review.
- 3.7 We reviewed the Council's project management and post implementation review arrangements to confirm whether these are appropriate, following the overspend that occurred on the Royal Albert Memorial Museum (RAMM) project. We also considered the activities that were identified as causing delay and the overspend to the project, as well as reviewing other capital projects that the Council had undertaken in recent years to identify if there are any underlying weaknesses in project management arrangements.

- 3.8 Our work recognised that the RAMM project was one of the biggest projects in which the Council has been involved. The budget for the project was initially set at £15.1 million but continued to increase, due to a range of issues and circumstances until the end of June 2011, when the total cost was estimated to be £24.3 million. The two main factors which resulted in the increase in costs were that once construction had commenced, it was discovered that the foundations were not strong enough to support the additional development work, and there had been errors in calculating the heating, cooling and humidity requirements. These problems resulted in substantial delays and additional cost.
- 3.9 The Council is currently progressing a number of claims against the contractors to recover the additional costs incurred for both structural and mechanical failings.
- 3.10 Our review of other capital schemes has not identified any projects which have experienced significant overspends. Consequently, we consider that the issues identified in the RAMM project are project specific due to its unique nature and related complexities and are unlikely to be systemic to the overall project management arrangements at the Council.

Follow up of previous reports

- 3.11 As part of our planned programme of work for 2010/11, we followed up progress made by the Council in implementing outstanding recommendations from current and previous years' audit reports. Overall, the Council has responded positively to the issues that we have raised and has made positive progress against recommendations made in prior years.
- 3.12 Our follow up of the action taken by the Council to implement recommendations made in our 2009/10 interim report has identified only one recommendation that the Council has yet to implement, relating to reviewing user access to the e-financials applications on a regular basis. The Council has agreed to introduce a six monthly review process which we will follow up as part of our planned programme of work for 2012/13.

4 Closing Remarks

- 4.1 This Letter was discussed and agreed with the Chief Executive and Director of Corporate Services and presented to the Scrutiny Resources Committee on 23 November 2011.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit.

Grant Thornton UK LLP
November 2011

A Reports Issued

Report	Date Issued
Annual Fee Letter	February 2010
Audit Plan	December 2010
Interim Audit Report and update to Financial Audit Strategy	May 2011
Annual Report to those Charged with Governance (including Value for Money)	September 2011
Annual Audit Letter	November 2011
Certification Report (Planned)	December 2011

B Audit and Other Fees

Audit Area	Budget 2010/11 £	Actual 2010/11 £
Financial statements	85,075	85,075
VFM conclusion / Use of resources	48,755	48,755
Total Code of Practice fee	133,830	133,830
Certification of grant claims and returns	20,000	20,000
Total fees	153,830	153,830



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