



Exeter City Council

Annual Audit Letter 2009-10

October 2010

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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 2009-10 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 2009-10 Code audit, including key messages and conclusions from our work on:
- auditing the 2009-10 year end accounts (Section 2);
 - the accuracy of grant claims and returns to various government departments and other agencies (Section 2); and
 - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3).
- 1.7 A list of all the reports issued during the year is provided at Appendix A and Appendix B sets out our actual and budgeted fees for 2009-10.

The economy

- 1.8 In the current financial climate, the Government's most urgent priority is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £6 billion are planned from Government spending during this financial year, including some £1.1 billion in reduced grants to local government. At the same time, the Government aims to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:
- abolishing Comprehensive Area Assessment;
 - reducing ring-fenced central government grants; and
 - undertaking a full review of local government finance.
- 1.9 Council tax in England is also to be frozen for at least one year, with a possible freeze for a second year in partnership with local authorities.
- 1.10 This Annual Audit 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, the need to generate cash releasing efficiency savings and rationing or reducing the level of services to achieve a year end balanced financial position for 2010-11.

Key areas for Council action

- 1.11 We have set out below, the key areas where action should be taken by the Council to further improve its arrangements during 2010-11.
- Following the Government's decision not to change the principal functions of the Council, the current arrangements for service provision should be subject to periodic review to identify the potential for delivering significant further savings . This should be supported through greater use of benchmarking to help focus where further efficiency savings could be made across departments;
 - The Council should ensure that its corporate risk register is supported by upto date operational registers that include relevant risks. It should ensure that any risks identified through the Council's ongoing review of partnership arrangements are included; and
 - In managing its use of natural resources, the Council should ensure that it extends the scope of its planning and monitoring of resource use to include all significant buildings across the organisation.
- 1.12 The context for these key messages can be found in this Letter. Management have agreed to implement these recommendations through the action plans included within the individual reports, which are disclosed in Appendix A.

2 Audit of accounts

Introduction

- 2.1 We issued an unqualified opinion on the 2009-10 accounts for the Council and its Group on 27 September 2010, ahead of the statutory certification deadline. Our opinion confirmed that the accounts give a true and fair view of the financial affairs of the Council and its Group at 31 March 2010 and of its income and expenditure for the year.
- 2.2 Prior to giving our opinion on the accounts, we were 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 27 September 2010 and summarise only the key messages in this Letter.

Audit of the accounts

- 2.3 The Council produced its draft 2009-10 accounts in advance of the 30 June 2010 deadline and presented them to the Final Accounts Committee on 29 June 2010. As in previous years, the working papers were of a high standard.
- 2.4 Regular liaison meetings were held between the audit team and key finance officers prior to the preparation of the draft accounts, which enabled early resolution of issues as they emerged. We would like to emphasise our appreciation to officers for their involvement in this process and their cooperation during our audit.
- 2.5 A small number of adjustments were identified as a result of our audit. The overall effect of these adjustments reduced the Council's surplus for the year and General Fund balance by £52,000. All of the adjustments identified through our audit were processed by management.
- 2.6 In addition, the Council complied with the requirements set out by Communities and Local Government in the submission of its consolidation returns for the Whole of Government Accounts (WGA) process. Whilst a number of amendments were required to ensure that the information reported in the return was complete, we can confirm that the Council submitted its returns in line with the specified deadlines, enabling us to complete our audit of this return by the 1 October 2010 deadline.

Financial performance

- 2.7 The Council has managed a challenging financial position during 2009-10. The shortfall in the concessionary fares scheme has placed additional pressures on the Council's general balances. Despite this, the Council delivered its General Fund service plans for a total net cost of £18.47 million, an underspend of £1.35 million against the revised budget of £19.81 million. This was achieved through strict controls to maintain prudent spending during the year, the successful application for a capitalisation order to fund the cost of staff redundancies and recovery of backdated VAT due to a clarification over the recovery of VAT on leisure services and other income. The Council's General Fund Balance reduced

during the year from £5.58 million to £3.84 million as at 31 March 2010. This is equivalent to about 23.5% of the Council's net budget for 2009-10.

- 2.8 Looking forward, the Council's service committee net expenditure budget for 2010-11 was set at the start of the year at £17.2 million. Subsequent to this, supplementary budgets have been agreed that have increased the annual budget to £17.36 million. Our review of the latest quarterly revenue outturn report, to the end of month three (June 2010), shows the Council is forecasting an overspend of £49,800 against this revised budget.
- 2.9 The expected net transfer from general fund working balances is currently estimated to be £0.77 million for 2010-11. This is forecast to reduce the working balance to £3.13 million by the end of the year. 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 completed a full review of the Council's Internal Audit Service in 2007-08, to assess its overall level of compliance against the CIPFA internal audit standards. We have revisited our findings this year to assess the progress made in responding to recommendations made in previous years. Overall, we concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2009-10 accounts.
- 2.12 As part of our overall review of the internal control system, we have performed a high level review of the general IT control environment and concluded that there were no material weaknesses within the IT arrangements that would adversely impact upon our audit of the accounts. We did identify a small number of areas where these arrangements could be strengthened further and have reported these to management.

Annual Governance Statement

- 2.13 We examined the Council's arrangements and process 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. Our work confirmed that the AGS was consistent with our knowledge of the Council and no significant issues arose from our work.

Matters raised by local electors

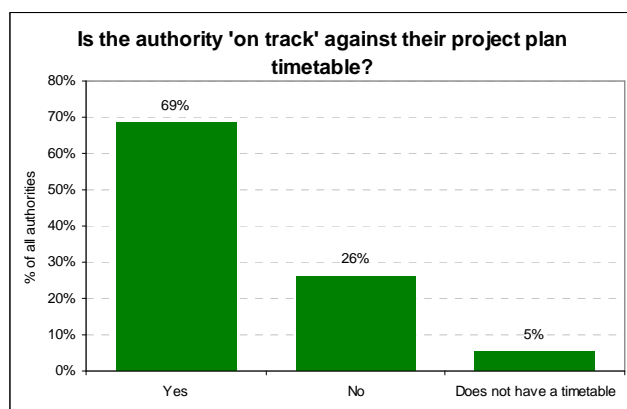
- 2.14 We received one request from an elector who wanted to raise a number of issues regarding the Council's accounts, on the date appointed for this purpose. There were a number of issues raised and we considered those which we determined were relevant to our audit as part of review of the accounts. Our work focussed on gaining sufficient assurance that these matters did not have a material impact upon the Council's accounts or our opinion on them.
- 2.15 Our work concluded that the issues raised did not impact on the accounts or our opinion. However, one of the areas raised, in relation to the disclosure of pensions contributions made on behalf of members, highlighted that the Council's current arrangements for disclosure should be enhanced. We were satisfied that the Council's member allowances

scheme was compliant with the requirements of the Local Authorities (Members Allowances) Regulations 2003, but have recommended that the value of payments disclosed for allowances paid to individual members should include any pension contributions paid by the Council. This recommendation has been accepted by the Council.

International Financial Reporting Standards

- 2.16 The Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) from 2010-11. The IFRS transition at the Council is being led by a project board and a project plan is in place.
- 2.17 A survey on IFRS progress was undertaken by the Audit Commission during July 2010. The survey indicated that whilst most authorities had made adequate progress against their project plans, nearly a third had not as can be seen in the Exhibit below.

Exhibit 1: IFRS Progress all authorities (source - Audit Commission)



- 2.18 Our work confirms that for Exeter City Council, the overall project plan to restate the opening balance sheet and 2009-10 accounts by 31 December 2010 remains on track.
- 2.19 We have continued to liaise with Council officers throughout the year to provide advice and support to the Council on the required accounting treatments under IFRS, through sharing our experiences of IFRS transition from other public sector bodies and providing our views on the Council's interpretation of the IFRS Code of Practice, which forms the basis for the preparation of the Council's first set of IFRS accounts in 2010-11. We will continue to review progress as part of our planned programme of work for 2010-11.

Certification of claims and returns

- 2.20 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 2010 after which we will prepare a separate certification work report, summarising issues from the 2009-10 work, to facilitate continuous improvement.
- 2.21 Based on our work to date for 2009-10, we have identified that the Council's arrangements to prepare and submit claims are generally sound and consistent with previous years, although further progress is required to address some issues raised following the re-classification of some dwelling types of the Council's housing stock during the year.

Follow-up of previous reports

- 2.22 As part of our planned programme of work for 2009-10, we followed up progress made by the Council in implementing outstanding recommendations from current and previous years' audit reports. Within this Letter, we have summarised the progress made against the most significant recommendations and identified those areas where further attention is required. Overall, the Council has responded positively to the issues that we have raised and has made positive progress against recommendations made in previous years.
- 2.23 Our follow up of the action taken by the Council to implement recommendations made in our 2008-09 interim report has identified only one recommendation that the Council has yet to implement, relating to the authorisation of journal entries. The Council is currently exploring further options of system development to achieve this.

3 Use of Resources

Introduction

- 3.1 We issued our annual VFM conclusion on 27 September 2010, at the same time as our accounts opinion and ahead of the required deadline. We concluded that, for 2009-10, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.
- 3.2 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 Resources Scrutiny Committee on 15 September 2010. In this Letter, we summarise the key messages from this work alongside relevant findings.

VFM conclusion and UoR assessment

- 3.3 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 3.4 Our 2010 Value for Money conclusion has been informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment.
- 3.5 The key developments in the Council's arrangements include:
 - a review of the format of its service plans to demonstrate a stronger link between financial and operational performance and the Council's strategic objectives. This revised format is being adopted across all departments;
 - the formal consultation with service users to inform the budget for 2010-11, through an online budget simulator, surveys and public events. This feedback was presented to members to inform the budget discussions;
 - improvements in the governance arrangements, for example through the use of a member development committee and personal development plans to identify training needs for members; and
 - strong arrangements were in place to manage natural resources to achieve reduced emissions with some notable outcomes, including reductions in paper and water use and a reduction in waste produced at the Civic Centre.

3.6 Our review has also identified a number of areas where the Council could seek further improvement opportunities and strengthen its existing arrangements. The key areas highlighted by our review include:

- promoting greater use of benchmarking, linked to performance data and user satisfaction information, to help determine where further efficiency savings can be made across departments;
- ensuring that the Council's corporate risk register is supported by up to date operational registers, which are reviewed regularly, that incorporate all relevant risks, including those identified through the Council's ongoing review of partnership arrangements;
- collecting data on the use of natural resources from all significant buildings to ensure that Council understands the full extent of its resource use; and
- develop and monitor the delivery of a range of targets for the reduction in the Council's use of natural resources, which are applied across the organisation and involving partner organisations, where relevant.

3.7 On the basis of the work undertaken, we issued an unqualified Value for Money conclusion.

Approach to local value for money audit work from 2010-11

3.8 The Audit Commission has reviewed its work programme for 2010-11 onwards given the scale of the pressures facing public bodies in the current economic climate. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money audit work with key national stakeholders.

3.9 From 2010-11 we will apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Audit Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

3.10 We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in the annual audit letter.

4 Closing remarks

- 4.1 This Letter has been agreed with management and will be presented to the Resources Scrutiny Committee on 24 November 2010.
- 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

October 2010

A Reports issued

Report	Date Issued
Annual audit fee letter	March 2009
Financial Statements Plan	November 2009
Interim Audit Report including Use of Resources	May 2010
Annual Report to those Charged with Governance	September 2010
Value for Money report	September 2010
Annual Audit Letter	October 2010
Certification work report (planned)	December 2010

B Audit and other fees

Audit Area	Budget 2009-10 £	Actual 2009-10 £
Financial statements	69,500	69,500
VFM conclusion / Use of resources	48,152	48,152
Total Code of Practice fee	117,652	117,652
Certification of grant claims and returns (estimate)	20,000	20,000
Total fees	137,652	137,652



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