

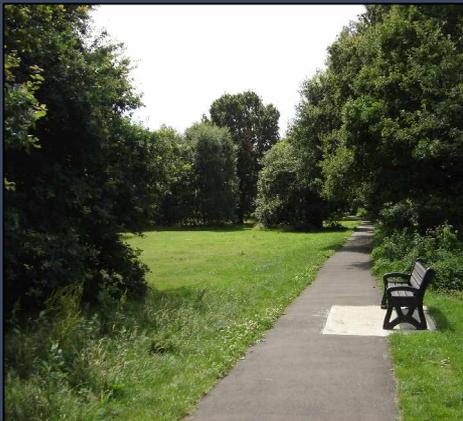


Accountants &
business advisers

Castle Point Borough Council

Annual Audit Letter 2009/10

November 2010



*Local Public
Services*



Contents

Executive summary	1
Introduction.....	3
Key findings.....	5
Future developments.....	10

Appendix

Reports issued in relation to the 2009/10 audit

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codelocalgov.aspx>

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

Executive summary

This Annual Audit Letter summarises the key issues arising from the work we have carried out during the year. We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix.

Accounts

Financial statements

We issued an unqualified opinion on the financial statements on 29 September 2010. The draft financial statements submitted for audit contained one material presentation error where internal recharges of £13.9 million had been included in both income and expenditure, and the published financial statements were corrected to remove this.

We also reported two non-material errors that were not corrected in the published financial statements regarding £79,000 of capitalised staff costs that should have been expensed and £136,000 of refuse sacks included as assets that had should have been expensed following distribution to residents.

We reported a small number of weaknesses in internal financial controls and processes such as authorisation of journals and to put in place a formal contract with Essex County Council for the Payroll service provision.

Use of resources

Arrangements

Financial planning arrangements continue to be effective and the Council under spent its revenue budget by £1 million in 2009/10, allowing £1.4 million to be added to reserves. The financial strategy has set funded budgets through to 2014/15 with a balanced budget for 2010/11 which includes the use of the backlog maintenance reserve of £2.2 million. The Council requires additional efficiencies of £1.4 million by 2014/15.

The Council has good arrangements for governing the business and management make good use of information to support decision making.

Arrangements for managing the use of natural resources have progressed in 2009/10, with good baseline information being made available and an action plan put in place to deliver reductions in energy use.

Health inequalities

Essex public sector organisations have made good overall progress against our previous recommendations, particularly in consolidating strategic approaches to deal with health inequalities, working together to develop operational arrangements to deliver the strategies and improving member awareness.

Some issues require further attention, particularly in delivery, target setting and local performance monitoring.

Use of resources**Leisure services**

A significant investment of £1.7 million is planned for 2010/11 on improvements for the two Leisure facilities and two Community Halls following a review of Leisure services. This decision was informed by consultation but affected by the recession and the Council has opted for an improvement approach rather than replacing the existing facilities in the medium term.

Housing services

Spend on housing was broadly in line with forecast and work on replacement kitchens and bathrooms was undertaken to progress achievement of Decent Homes Standard. Over 100 properties have been improved to meet the required level. However, 10.7% of homes still remain non-decent against a 6 % target set by the Council.

24 affordable homes were delivered in 2009/10 which is a significant improvement on 2008/09 where no homes were delivered.

Value for money conclusion

We concluded that the Council has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction

About the Council

The Council serves a population of approximately 89,000 and comprises two urban areas of Canvey Island and the mainland towns. The Council's vision is for a community delivering excellent public services, where everyone can prosper, be safe and live in a high quality, sustainable environment. This is supported by four ambitions covering:

- Environment and Civic Pride
- Regeneration and Homes
- Improving the Council
- Community Safety.

Further information on the activities of the Council is detailed in the Corporate Plan 2009-2012 which is available on the Council's website at www.castlepoint.gov.uk.

Purpose of this Letter

The purpose of this Annual Audit Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key 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 auditors and the Council

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. 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.

Scope of our work

Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Acknowledgement

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

Key findings

Accounts audit

We issued an unqualified opinion on the Council's financial statements on 29 September 2010. Our opinion confirms that the financial statements gave a true and fair view of Council's financial affairs as at 31 March 2010 and of its income and expenditure for the year then ended.

However, the draft financial statements submitted for audit contained one material presentation error where internal recharges of £13.9 million had been included in both income and expenditure, and the published financial statements were corrected to remove this. The creditors note in the financial statements also required amendment to reclassify £1.9 million of government grants and other capital contributions from creditors to unapplied capital contributions.



We reported two non-material errors that were not corrected in the published financial statements regarding £79,000 of capitalised staff costs that should have been expensed and £136,000 of refuse sacks included as assets that had should have been expensed following distribution to residents.

We have noted that the Council was in receipt of £1.6 million capital grant funding from the Homes and Communities Agency (HCA) in March 2010 that required the monies to be 'spent' (defrayed) by 31 March 2010. While the Council had contracts in place with a number of organisations to undertake projects in the following financial year, much of the work had not yet been started and in effect the Council had prepaid against these commitments. We have expressed concerns that the Council did not seek to obtain appropriate security over these prepayments to protect the tax payer in the event of default or insolvency of the organisations. We acknowledge that the Council had satisfied itself regarding the risks with prepaying such a significant amount and note that the late notification of the grant award did not allow for normal processes to be followed.

We also reported a small number of weaknesses in internal financial controls and processes including:

- balances on individual cash ledger codes have accumulated over a number of years and need to be cleared although this has no effect on the overall cashbook balance
- Internal Audit found that 8 out of 10 journals were not appropriately authorised
- no formal Service Level Agreement in place between the Council and Essex County Council for the provision of payroll services although we acknowledge that this was a deliberate decision and that the Council has since given notice to terminate this service.

We were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.

Use of resources

The use of resources assessment forms part of the Comprehensive Area Assessment and considers how well organisations are managing and using their resources to deliver value for money and better, sustainable outcomes for local people. The assessment comprises three themes that focus on Managing finances, Governing the business and Managing resources.

In June 2010, the Government announced the abolition of Comprehensive Area Assessment. As a result the Audit Commission announced changes to its use of resources approach, effective immediately, which included removal of the scored judgements for use of resources assessments in local government bodies. It was still necessary, however, for auditors to complete sufficient use of resources assessment work to support their statutory duty to give a value for money conclusion. In practice, much of the use of resources assessment had already been completed at the time of the announcement, in order to meet the prior deadline of submitting indicative scores to the Audit Commission by 21 April 2010.

Managing finances



Financial planning arrangements continue to be effective. The Council under spent its revenue budget by £1 million in 2009/10, allowing £1.4 million to be added to reserves.

Budgets have been reviewed in light of the current economic climate and forecasts included within the medium term financial strategy have factored in an anticipated fall of 10% in government grant funding for 2011/12. The financial strategy has set funded budgets through to 2014/15. The Council set a balanced budget for 2010/11 which included budget roll forward and the use of the backlog maintenance reserve of £2.2 million. The Council requires additional efficiencies of £1.4 million by 2014/15.

The Government announced the results of its Comprehensive Spending Review in October 2010. Local Government faces unprecedented cuts with an expected average reduction of 7% per annum (specific reductions for each authority have not yet been notified to individual bodies), and the Council believes that the average first year reduction in local government could be in excess of 14%. The Council's forecast reduction in the level of funding it would receive within the Medium Term Financial Strategy will need to be reviewed to take account of the outlined proposed funding reduction of up to 28% over the next four years, especially when more detail becomes available.

The Council has a "Protecting the Council" action plan for 2010/11 which sets out the Council's response to the Comprehensive Spending Review and the financial position and costs have been subject to in-depth review and scrutiny to identify whether they are essential or desirable to see where savings can be made. Some regeneration projects have been completed in the year but the aging leisure facilities are due for investment in 2010/11.

A strong track record in delivering efficiencies continues to be demonstrated, including £756,000 of savings in 2009/10 against the target of £684,000. The value for money profiles tool shows the Council still has some pockets of high spend areas and also some services where satisfaction levels do not necessarily correlate with the level of spend. The Council showed an awareness of these areas and is making progress in addressing these.

Following the collapse of the Icelandic banks in October 2008 the Audit Commission conducted a study to examine treasury management arrangements in local authorities. The resulting report *Risk and Return* was published in March 2009 and the Communities and Local Government Select Committee also made a series of recommendations in its report *Local Authority Investment* published in June 2009.

In light of both of these documents, CIPFA revised the *Treasury Management in Public Services: Code of Practice (Second edition 2009)* which sets out the minimum level of arrangements that would be acceptable and the Council's own arrangements were considered as part of the 2009/10 value for money conclusion.

We concluded from this work that the Council's treasury management arrangements are satisfactory and the Council has taken action to strengthen its arrangements in light of the collapse of the Icelandic banks.

Governing the business

The Council has good arrangements for governing the business and management make good use of information to support decision making.

The Corporate Performance Scorecard for the first six months of 2010/11 indicate that the Council is on track to achieve its key priorities with only the level of composting of household waste flagged as 'amber' due to a significant increase in waste being generated.



There is good progress on recycling rates, reduction in the use of temporary accommodation for households, reductions in the incidence of crime and anti-social behaviour, and speed of responding to complaints about Council services.

Effective procurement arrangements continue to be in place. The Procurement Strategy Action plan has been refreshed and is monitored in the Procurement working group and the Procurement toolkit has been expanded.

Data quality arrangements continue to be sound and the Council is using Covalent, the performance management software, to provide information to support decision making. Risks and actions have now been uploaded onto the system and therefore these can be viewed alongside performance data.

Adequate arrangements around governance, including partnership governance, continue to be in place. Risk management and fraud awareness arrangements are subject to monitoring and scrutiny by the Audit Committee.

Managing resources



Arrangements for managing the use of natural resources have progressed in 2009/10, with good baseline information being made available and an action plan put in place to deliver reductions in energy use.

The Council has a Sustainability Strategy in place and the baseline assessment and targets have been identified and set. The main facilities have been assessed by the Carbon Trust and the results of which have fed into the Sustainability Strategy. There is a separate strategy for Energy and Water Management for the Council's operational buildings. However, the housing stock is not included within this strategy.

A carbon reduction action plan is in place and the Council identified some outcomes against this, such as reductions in emissions from the installation of power saving devices, replacing photocopies/printers/scanners. Training sessions have been held with staff as well as workshops and bite sized lunchtime learning sessions to generate awareness of environmental issues and plans.

Local performance review

We reviewed how the Council had responded to key service delivery challenges in the year including improving leisure services infrastructure and providing affordable homes to local people.

A significant investment of £1.7 million is planned for 2010/11 on improvements for the two Leisure facilities and two Community Halls following a review of Leisure services with works taking place over a two year period. This decision was informed by consultation but affected by the recession and the Council has opted for an improvement approach rather than replacing the existing facilities in the medium term. The strategic direction has therefore moved on in the year and we plan to keep this under review in 2010/11.



We are also aware that Waterside Farm proposals are subject to review while the Building Schools for the Future proposals are evaluated and consequently the Runnymede Pool refurbishment has been brought forward.

Spend on housing was broadly in line with forecast and work on replacement kitchens and bathrooms was undertaken to progress achievement of Decent Homes Standard. Over 100 properties have been improved to meet the required level. However, 10.7% of homes still remain non-decent against a 6 % target set by the Council.



The Council delivered 24 affordable homes in 2009/10 which is a significant improvement on 2008/09 where no homes were delivered. We will continue to monitor progress in delivering affordable homes to local people.

Value for money conclusion

Taking into account our work on use of resources, we have concluded that adequate arrangements are in place to secure value for money and we provided an unqualified value for money conclusion for the year ended 31 March 2010.

Grants and certification assurance

Our work on the 31 March 2010 grant claims remains on-going at the time of finalising this report. To date, we have completed our audit of four grant claims and only Benefits and the Housing subsidy return remain in progress. No amendments or issues have been identified with those grant claims completed so far.

In relation to the 31 March 2009 claims, two of the six claims audited were qualified. Particular issues were experienced with the Housing and Council Tax Benefit claim where additional testing was undertaken. These contributed towards the Council missing the certification deadline of 30 November 2009, although all work was completed and the claim certified on 23 December 2009. A follow-up letter was received from the Department for Work and Pensions in October 2010 and a response has been provided to queries raised regarding the 2009 qualification.

Future developments

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

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

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

- securing financial resilience
- prioritising resources within tighter budgets.

We will determine a local programme of value for money 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 value for money audit work. Instead we will report the results of this work and the key messages for the audited body in our annual governance report to those charged with governance and the Annual Audit Letter.

International Financial Reporting Standards (IFRS)

IFRSs will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. Management should prepare for the adoption of IFRSs based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to restate the current financial statements.

The Council has made progress since the previous Audit Commission IFRS survey in November 2009. The Audit Commission updated their Local Government IFRS preparedness survey in 2009/10 and our assessment rated the Council as “amber” because leases and contracts were subject to on-going review and assessment. The opening balance sheet restatement is complete.

The 2009/10 financial statements are due to be restated by the end of December 2010 with the preparation of skeleton draft IFRS statements due to be completed by March 2011. The Council has already made progress with preparing the key financial statements and discussions on proposals around component accounting and other technical queries remain on-going.

Abolition of the Audit Commission

On 13 August 2010 the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission. The intention is to have new arrangements in place for auditing England's local public bodies by 2012/13. The Audit Commission's responsibilities for overseeing and delivering local audit and inspections will stop and the audit work will move to the private sector.

The Audit Commission is working with government and other key stakeholders to help design and implement the new arrangements.

The Audit Commission will remain responsible for the 2011/12 audit of local public bodies and expect to close around December 2012. This timetable has yet to be confirmed and depends on the necessary legislation being passed.

Appendix: Reports issued in relation to the 2009/10 audit

Report	Date Issued
Audit Fee Letter	April 2009
Audit plan	December 2009
Grant Claim Certification for the year ended 31 March 2009	January 2010
Annual governance report	September 2010
Annual Audit Letter	November 2010