



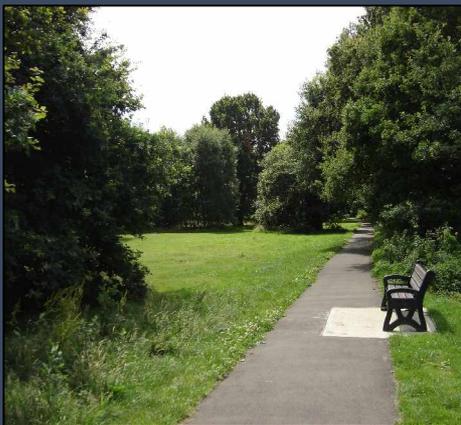
Accountants &
business advisers

Castle Point Borough Council

Annual Audit Letter 2010/11

Report to the Members

November 2011



*Local Public
Services*



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<http://www.pkf.co.uk/>

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 28 September 2011. Our opinion confirmed the financial statements gave a true and fair view of the Council's financial affairs at 31 March 2011 and of the income and expenditure for the year.

We were pleased to report that the Council effectively managed the transition to financial reporting under International Financial Reporting Standards (IFRS) and correctly restated comparative figures in the financial statements.

No material errors were identified as a result of our audit work although a number of amendments were made to the final published financial statements.

Use of resources

Financial resilience

The Council was notified of a reduction in central government revenue funding of £912,000 (16.2%) for 2011/12 and savings and efficiency initiatives have been identified to fund the budget gap. This has been addressed partly through a £500,000 reduction in staff costs and partly through service reviews, vacant post management and closing cash offices. From review of the Council's performance reports, it is on track to deliver its 2011/12 objectives and targets and management are now focussing on delivering further savings over the medium term in anticipation of further reductions in funding.

Economy, efficiency and effectiveness

The budget gap for 2012/13 has been reduced considerably since the original medium term budget was prepared with the remaining unfunded spend now at a level that can be funded by reserves as a last resort option without any detrimental impact on the immediate financial health of the Council. Staff are being engaged in the process by being encouraged to put forward suggestions for other saving and efficiency ideas..

Members have a clear understanding of the Council's financial challenge and are supportive of officers in the budgetary process and on-going financial management. 2011/12 is very much seen as a year of consolidation by both Members and officers to prepare for the medium term.

Use of resources continued**Housing services**

Repairs and maintenance have been outsourced from 1 April 2011 and whilst there have been some early teething problems around the contract that has adversely impacted on voids turnaround times, the Council and contractor are working together to improve this.

At an operational level, IT requirements have been considered and software updated. The officers are working to make these fit for purpose and integrate it with the financial system, but these developments are on-going.

Leisure services

Leisure has been subject to various reviews and the Council has agreed to upgrade and refurbish the facilities in the medium term. Runnymede Swimming Pool was refurbished during 2010/11 and re-opened in May 2011. The impact of the operational review of the service and outcomes in terms of attendance levels and service satisfaction are as yet unknown.

Value for money conclusion

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011, and issued our conclusion on 28 September 2011.

Grants and certification**Arrangements**

The Council's arrangements for preparing grant claims and other returns to Government departments are generally operating effectively.

2009/10 returns

Five out of six of the grant claims and returns that we audited for 2009/10 were found to be accurate and prepared in accordance with the terms and conditions of grant awarded.

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 2011-2012 which is available on the Council's website at www.castlepoint.gov.uk.

The purpose of this Letter

The purpose of this 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.

We have previously reported the detailed findings and conclusions from our audit in our Annual Governance Report to Members.

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.

The 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

Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

Accounts



We issued an unqualified opinion on the Council's financial statements on 28 September 2011.

Our opinion confirmed the financial statements gave a true and fair view of the Council's financial affairs at 31 March 2011 and of the income and expenditure for the year.

Financial statements

We were pleased to report that the Council effectively managed the transition to financial reporting under International Financial Reporting Standards (IFRS) and correctly restated comparative figures in the financial statements.

The key amendments to the accounts arising from the adoption of IFRS included recognition of new finance leases, reclassification and valuations for investment properties, recognition of employee benefits, and revenue recognition policies for grant income.

No material errors were identified as a result of our audit work. However, a small number of amendments were made to the final published financial statements following receipt of the draft accounts including:

- £500,000 balance moved from short term investments to cash
- amendments to disclosures in the financial statements and to aspects of the presentation of the overall Statement of Accounts.

Total reserves, or net worth of the Council, decreased from £106.6 million to £91.5 million at 31 March 2011. This principally comprised £21.4 million reduction in the value of housing dwellings due to the social housing adjustment factor reducing from 45% to 32%, £3.7 million reduction in pension liabilities following the change from RPI to CPI for future indexing and valuation gains on revalued land and buildings of £1.3 million.

Internal controls

We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened. In particular, we suggest that the Council considers reviewing user permissions of staff and managers who have access rights to raise invoices and raise credit notes or process refunds to ensure adequate segregation of duties are in place. We also encountered difficulty establishing capital works had been completed because of ineffective monitoring arrangements over the Breyer contract for kitchen and bathroom replacements and recommend that the Council review its contract monitoring arrangements to ensure a full audit trail is maintained for works undertaken and post completion checks are undertaken to demonstrate value for money.

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

Use of resources



We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011, and issued our conclusion on 28 September 2011.

Our principal work in arriving at our value for money conclusion was comparing the Council's financial governance arrangements against characteristics specified by the Audit Commission, reviewing financial resilience and the arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial resilience

Our financial resilience work considered the Council's arrangements for financial governance, financial planning and financial control.

The Council was notified of a reduction in central government revenue funding of £912,000 (16.2%) for 2011/12 and savings and efficiency initiatives have been identified to fund the budget gap. This has been addressed partly through a £500,000 reduction in staff costs and partly through service reviews, vacant post management and closing cash offices. From review of the Council's performance reports, it is on track to deliver its 2011/12 objectives and targets and management are now focussing on delivering further savings over the medium term in anticipation of further reductions in funding.

As at 31 March 2011, the Council has useable reserves of £8.3 million. This includes a £2 million General Fund balance and £3.8 million earmarked reserve. The Head of Resources recommended a minimum level of reserves of £1.1 million and therefore there is some scope to utilise these balances in the medium term.

Overall, the Council is well placed to manage the reduction in funding over the next few years and has flexibility in its reserves to remain financially resilient.

Economy, efficiency and effectiveness

Our review of economy, efficiency and effectiveness considered the Council's arrangements for prioritising resources and improving efficiency and productivity.

The budget gap for 2012/13 has been reduced considerably since the original medium term budget was prepared with the remaining unfunded spend now at a level that can be funded by reserves as a last resort option without any detrimental impact on the immediate financial health of the Council.

Staff are being engaged in the process by being encouraged to put forward suggestions for other saving and efficiency ideas.

There are a number of significant procurement contracts due for tender which present opportunities for the Council to make further savings. Greater partnership working is also being considered and investigated as longer term options for cost savings. Officers have continued to be prudent in their assumptions for future funding levels and interest rates to give some flexibility.

Members have a clear understanding of the Council's financial challenge and are supportive of officers in the budgetary process and on-going financial management. 2011/12 is very much seen as a year of consolidation by both Members and officers to prepare for the medium term.

Key focus areas in the medium term include:

- review and update the strategic priorities ensuring key stakeholder engagement in the process and sufficient capacity and resources are invested in this process to align financial resources to strategic priorities
- complete the review of fees and charges to ensure that service costs are being met by the revenue generated and stakeholder expectations will need to be managed depending on the outcome
- continue to monitor both cost and performance to demonstrate to Members that despite significant reductions in back office staff costs, services continue to deliver value for money in line with strategic priorities
- consider enhancing reporting of both financial and performance information in full as opposed to exception reporting to give greater transparency and inform key stakeholders of the Council's performance
- review the latest Audit Commission value for money profiles tools to identify areas to target for potential cost reduction.

Housing services

We have continued to monitor this priority area since the housing transfer received a "no" vote from tenants. In 2010/11 the Housing Service went through another restructure and a new management team is now in post. Additional housing expertise has been brought into the service.

Repairs and maintenance have been outsourced from 1 April 2011 and whilst there have been some early teething problems around the contract that has adversely impacted on voids turnaround times, the Council and contractor are working together to improve this.

At an operational level, IT requirements have been considered and software updated. The officers are working to make these fit for purpose and integrate it with the financial system, but these developments are on-going.

Key focus areas include:

- implement processes and procedures to review completion of works undertaken by external contractors to monitor quality of service
- complete the functionality review of Anite to ensure the system is fit for purpose.

Leisure services

Leisure has been subject to various reviews by the Council because of the aging facilities in operation within the Borough. The strategic decision was made to upgrade and refurbish the facilities in the medium term to invest in the services provided by the Council.

Runnymede Swimming Pool was refurbished during 2010/11 and re-opened in May 2011. The impact of the operational review of the service and outcomes in terms of attendance levels and service satisfaction are as yet unknown.

Waterside Farm is due for refurbishment in 2012/13 and we will continue to monitor progress in upgrading leisure infrastructure.

Grants and certification work

The Council's arrangements for preparing grant claims and other returns to Government departments are generally operating effectively.

Five out of six of the grant claims and returns that we audited for 2009/10 were found to be accurate and prepared in accordance with the terms and conditions of grant awarded. However, there is scope for the Council to improve its arrangements for preparing the Housing and council tax benefits subsidy return including archiving older claim forms, application of benefits and uplifts to claims, and classification of council tax overpayments.

Future developments

Housing Revenue Account Reform

From 2012/13, the government intends to replace the current method of financing the Housing Revenue Account with a system of self funding. Council's will no longer receive housing subsidy, instead they will be expected to fund all HRA revenue and capital expenditure from existing resources.

The impact for the Council is a significant increase in borrowing which will be finalised in the next budget setting round ready for 1 April 2012 when self-financing will go live.

Abolition of the Audit Commission update

On 13 August 2010 the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission. The process for outsourcing all of the Audit Commission's local audit work from 2012/13 has now started. Thirteen potential providers have met the pre-qualification requirements and contracts are expected to be awarded in February 2012. A period of consultation will then take place before auditor appointments are finalised and approved in July 2012.

On street car parking

The South Essex Partnership was launched on 1 April 2011 and is hosted by Chelmsford Borough Council. The Partnership has responsibility for all on street civil parking enforcement for the partner authorities which includes Castle Point Borough Council. Further responsibilities will be transferred once agreement in respect of funding has been reached between relevant bodies. We will be monitoring the arrangement throughout the year.

Appendix: Reports issued in relation to the 2010/11 audit

Report	Date Issued
Audit Fee Letter	April 2010
Audit plan	December 2010
Grants and certification work (2009/10 returns)	February 2011
Annual governance report	September 2011
Annual Audit Letter	November 2011