

# Annual Audit Letter

Leicester City 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.

I have included only significant recommendations in this report. The Council has accepted these recommendations.

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 financial statements on 30 September 2011.

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

My audit identified one material error in the draft financial statements submitted for audit. The adjustment related to asset valuations, and had no impact on either net expenditure or the general fund balance

## 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; and
- 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 30 September 2011.

# Current and future challenges

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

## Economic downturn and pressure on the public sector

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.

In common with many local authorities, Leicester City Council will receive significantly less Government funding in the period to 2015. To balance its books the Council must make significant savings. This is likely to result in the deletion of over 500 FTE posts in 2011/12.

There is still a need to identify reductions in expenditure of over £17 million per annum by 2012/13.

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 adequate. Members will need to ensure that these are used effectively to ensure that strong financial management is maintained whilst striving to maintain and improve services to the public.

## New democratic arrangements

The Council faces the challenge of optimising the governance and management arrangements between the City Mayor, the Cabinet, other elected members and officers. As part of the new structure the post of Chief Executive has been deleted.

## Housing revenue subsidy system

Changes to the housing revenue subsidy system come into effect on 1 April 2012. Instead of paying an annual contribution to government you will have to service a debt (amount to be determined). This cost will be accounted for within the ring-fenced Housing Revenue Account.

# **Financial statements and annual governance statement**

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**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 30 September 2011.

My audit identified one material error and nine other significant errors in the draft financial statements submitted for audit. The adjustments mainly related to asset valuations, so they had no impact on either net expenditure or the general fund balance.

Eight disclosure notes were amended by significant amounts, but these amendments had no impact on any of the primary statements.

## **Significant weaknesses in internal control**

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

# Value for money

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**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.

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## Value for money criteria and key messages

Criterion	Key messages
<b>1. Financial resilience</b> <b>The organisation has proper arrangements in place to secure financial resilience.</b> Focus for 2010/11: 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.	The Council's 2010/11 reported revenue outturn position was an overall underspend of £2.8 million against a revised budget of £268.2 million. 2010/11 was a difficult year for the Council because of increased demand for services and reduced income levels.  The Council's medium term financial strategy (MTFS), covering the period 2011/12 to 2013/14, has identified savings of £19.4 million to be delivered from corporate and divisional budgets in 2011/12, but forecast spending will still exceed income by £9.3 million. This would reduce the general fund balance to £5.2 million which is only just above the minimum balance of £5 million recommended by the former Chief Finance Officer.  The Council is monitoring closely progress against the 2011/12 budget. Recent indications are that some of the proposed savings have not materialised as quickly as hoped for with a potential £5 million shortfall, although this shortfall should be offset by underspends elsewhere.  Also, there are further savings required in 2012/13 onwards, from as yet unidentified sources, amounting to over £17 million.

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Criterion	Key messages
<b>2. Securing economy efficiency and effectiveness</b>	The Council has continued to manage its resources in an efficient and effective way.
<b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b>	Value for money is considered regularly through service reviews. The Council makes good use of unit cost information, cost benefit analysis and options appraisals in considering its priorities and how services are to be delivered.
Focus for 2010/11:	2010/11 is the second year of the Council's Organisational Development and Improvement programme which is aimed at improving the efficiency and effectiveness of support services. Support services account for around 10 per cent of the Council's spend each year. £2 million planned savings were delivered in 2010/11 and the Council is making progress in delivering the £6 million target for 2011/12.
The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	The Council has a positive reputation for its partnership working and realises additional resources through being involved in partnership working.

## Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources. During my audit I have covered the following issues raised by employees.

### De Montfort Hall

I reported on the outcome of the extensive internal audit investigation into the governance, management and control failings at De Montfort Hall in my annual audit letter last year. I had received whistle-blowing concerns from two employees but internal audit were at that stage already investigating the issues. I recommended in my letter last year that the Audit and Risk Committee gain assurance that those individuals responsible for, or who benefitted from, the weaknesses were dealt with appropriately. It was agreed that officers would submit a report to the Audit and Risk Committee in August 2011, but this was subsequently delayed until November 2011.

As part of the investigation, internal audit reported separately on a number of individual employees, and the Council took disciplinary action in two cases. In other cases it decided not to. In the light of the current climate of financial restraint, where internal control is likely to be even more stretched than normal, it is important the Council re-emphasises its willingness to take robust action in cases of inappropriate behaviour by employees. It will be important that, on receipt of the planned internal report, the Audit and Risk Committee ensure that the arrangements in place have delivered appropriate outcomes.

## **Car Parking**

During the year an ex-employee raised concerns with me in respect of car parking, having first raised his concerns with the Council. The Council was, and is, investigating this issue and it is still to consider what action it may take as a result. I am continuing to monitor the action the Council takes.

## **Planning Issues**

More recently officers have made me aware of an internal audit investigation into the system for granting and enforcing Tree Preservation Orders (TPOs), which was again initially raised within the Council via a whistle-blowing disclosure from an employee. As a result of the disclosure, disciplinary action has been taken against another officer and a number of recommendations have been made to improve controls and governance in the issue of TPOs, and in ensuring staff declare potential conflicts of interest. It is important that the improvements are implemented.

The employee who made the disclosure was subsequently dismissed by the Council. An Employment Tribunal recently found that the employee was dismissed by the Council as a result of having made the disclosure (although the Council is appealing the decision). Notwithstanding this, and given that the whistle-blowing process has been instrumental in bringing the above weaknesses and shortcomings to the attention of management, it would also be appropriate for the Council to review its whistle-blowing arrangements.

## **Recommendations**

- R1** Ensure that the recommendations to address governance, management and control failings at De Montfort Hall have delivered appropriate outcomes.
- R2** Ensure the improvements arising from the internal audit review of Tree Preservation Orders are implemented.
- R3** Review the Council's whistle-blowing arrangements.

## **Other Issues**

I also reviewed the Council's arrangements for managing the "Building Schools for the Future" programme and Area Based Grant and the Council's response to a data security breach. I reported on these in my Annual Governance Report.

# Closing remarks

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## Ongoing independent support

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

- attendance at Audit and Risk 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 Deputy Chief Executive. I will present this letter at the Audit and Risk Committee on 8 February 2012 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
Certification of claims and returns - annual report (2009/10)	February 2011
Audit plan (including Joint working protocol - financial statements audit)	April 2011
Annual governance report	September 2011
Audit opinion and VFM conclusion	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

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	Actual	Planned	Variance
Audit fee	362,000	372,000	-10,000
Comprehensive Area Assessment (CAA)	0	16,630	-16,630
Non-audit work	0	0	0
<b>Total</b>	<b>362,000</b>	<b>388,630</b>	<b>-26,630</b>

## Variance in fees

Following the abolition of CAA, I determined that planned work on health inequalities would no longer be relevant to the revised VFM conclusion criteria. I reduced the fee by £12,000.

In my Annual Governance Report I told you that I had to undertake additional audit procedures, and that the efficiency of my audit had been affected by various delays in receiving information. I have charged additional fees of £2,000 in this respect.

## Other fee rebates

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 £24,824. The abolition of CAA also reduced the scope of work required to produce the VFM conclusion. The Audit Commission paid a rebate of £14,684 to you. The rebates are not reflected in the table.

The proposed fee for CAA was not levied once the government announced the abolition of CAA.

## **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 £135,000 (£146,000 in 2009/10).

# **Appendix 2 - Glossary**

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## **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.

# Appendix 3 - Action Plan

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## Recommendations

### Recommendation 1

Ensure that the recommendations to address governance, management and control failings at De Montfort Hall have delivered appropriate outcomes.

**Responsibility** Audit and Risk Committee

**Priority** High

**Date**

## Comments

### Recommendation 2

Ensure the improvements arising from the internal audit review of Tree Preservation Orders are implemented.

**Responsibility** Audit and Risk Committee

**Priority** High

**Date**

## Comments

### **Recommendation 3**

Review the Council's whistle-blowing arrangements.

<b>Responsibility</b>	Director of Corporate Governance
<b>Priority</b>	High
<b>Date</b>	June 2012
<b>Comments</b>	The Audit and Risk Committee has concluded that a recent employment tribunal case may have diminished the trust employees and others have in the Council's whistleblowing process. Options are being considered as to how the process could be refreshed with the possibility of the first point of contact and advice sitting outside the Council.

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