

Annual Audit

Letter

Leicester City Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 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.

Audit opinion and financial statements

- 1** I have given an unqualified opinion on the financial statements.
- 2** The draft financial statements contained seven material errors that were corrected. None of these affected the Council's levels of reserves or financial health.

Value for money

- 3** I have given an unqualified value for money conclusion as the Council has demonstrated that it has adequate arrangements in place regarding the overall use and management of resources to deliver value for money.

Audit Fees

- 4** I have charged additional fees of £11,000, mainly as a result of extra work required following late changes to the 2009 SORP in respect of accounting for Public Finance Initiative (PFI) and similar contracts. Further information regarding audit fees can be found in Appendix 1.

Current and future challenges

Financial Position

- 5** The main challenge facing the public sector is the effect of cuts in funding to public services, while demand for many services grows.
- 6** In common with all public sector bodies the Council is already facing cuts in funding in the 2010/11 financial year. These are likely to accelerate in the medium term. The Council is taking appropriate action to amend its budget and the medium term financial strategy. This is aimed at finding efficiencies and savings and wherever possible minimising the effects that these constraints will place upon service delivery.

7 The Council's initial assessments show it could be facing formula grant cuts of around 29 per cent in real terms over the period 2011/12 to 2014/15 of which 11 per cent, or £19 million, is expected in 2011/12. There will also be reduced capital funding, which may impact on projects such as Building Schools for the Future.

8 Officers are rightly taking steps to ensure the impact of the Comprehensive Spending Review and the local government finance settlement will be taken into account in future financial plans.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements.

Overall conclusion from the audit

Opinion

9 I issued an unqualified opinion on the Council's financial statements on 30 September 2010.

10 These were the first financial statements the Council has produced since implementing its new accounting system. Teething troubles in the operation of the new accounting system and the absence of a permanent fixed assets register also meant that finance staff faced a particular challenge to complete draft accounts on time. Finance staff did well to achieve this but the accounts were finalised later than planned and were approved 'as seen but not studied' by members at the Audit and Risk Committee meeting on 30 June.

11 These difficulties also contributed to:

- the draft accounts containing seven material errors that were corrected (last year there were just three material errors). The errors were all misclassifications within the Income and Expenditure Account, the Balance Sheet or the Cash Flow Statement and did not impact on the general fund balance; and
- a more time-consuming audit in some aspects, particularly in gaining timely responses to queries arising during the audit.

12 The accounts for 2010/11 will be the first ones to be prepared under the new International Financial Reporting Standards (IFRS) and this will be an additional challenge next year.

13 I have reported all significant matters arising from my audit to the Audit and Risk Committee, and have brought other relevant issues to the attention of officers with the aim of helping improve the quality of next year's financial statements. My audit also identified a number of non-material errors and minor presentational errors.

Recommendation

R1 Ensure the accounts are prepared early enough to allow members sufficient time to scrutinise the accounts prior to approving them.

Accounting Practice and Financial Reporting

14 In my Annual Governance Report I reported that five councillors did not respond to requests for information in respect of related party transactions. The Chief Finance Officer has written to all members to remind them of the importance of completing and returning declarations.

Public Interest Disclosures

15 In 2009 I received two disclosure under the Public Interest Disclosure Act 1998 (the Act) from employees of the Council. The disclosures concerned various internal control and governance issues at De Montfort Hall (DMH).

16 The Audit Commission is a 'prescribed person' for receiving disclosures under the Act. However, the Act neither requires nor empowers the Commission, or its appointed auditors, to carry out an investigation into the subject matter of any disclosure made, or to report the results of any investigation undertaken. However, the Commission's policy is to refer disclosures to the appointed auditor for consideration in the context of the auditor's existing statutory and professional responsibilities.

17 The issues disclosed to me have been the subject of an extensive and ongoing internal investigation led by Internal Audit. My role has therefore been confined to maintaining an overview of:

- the Council's own investigation;
- reviewing whether the matters referred to within the employee disclosures have been fully and appropriately investigated; and
- any subsequent action taken by the Council.

18 The investigation has now been completed and Internal Audit has reported serious financial and management failures. It is clear from the report that governance arrangements at DMH were poor. As a result of the findings the Council has started to take action to remedy the weaknesses.

19 The Council also needs to ensure employees responsible for, or who may have taken advantage of, the financial and management failures are dealt with appropriately. This will be particularly important as a deterrent in times of financial constraint where internal control is likely to become stretched as it will emphasise the Council is serious about its "zero tolerance" policy.

20 I have made comments to officers during the course of the investigation on various aspects of the emerging findings, including:

- the need for the Council to demonstrate that it has dealt swiftly and robustly with any examples of inappropriate member involvement in operational issues and that it has taken appropriate action to guard against similar breaches in the future. The Council is planning further training for members on this issue;
- the need to take action to address the overall management control and cultural shortcomings that were evident at DMH and to ensure that the Audit and Risk Committee has a role in ensuring that improvements are made in a timely and effective manner. The Council has an overall improvement plan for DMH; and
- early in the investigation officers identified a need to adopt a revised, more restrictive and transparent policy in respect of complimentary tickets for DMH and other Council events and to issue guidance to discourage officers and members from requesting tickets directly from the Hall manager. I raised concerns in May 2010 that this particular issue had still not been finalised. A revised policy was issued in June 2010.

21 I will continue to monitor the Council's actions in respect of these matters and will make further comments and recommendations for improvement if necessary.

Recommendation

R2 Ensure that management takes action to achieve improvements in internal control at DMH and holds employees to account appropriately.

Significant weaknesses in internal control

22 With the exception of matters described above relating to De Montfort Hall, I did not identify any significant weaknesses in your internal control arrangements.

Value for money

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 I have given an unqualified value for money (VFM) conclusion.

2009/10 use of resources assessments

23 At the end of May 2010, the Audit Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Audit Commission would no longer issue scores for its use of resources assessments.

24 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my unqualified opinion of 30 September 2010.

25 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

26 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

27 I issued an unqualified conclusion stating that for 2009/10 the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

28 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
■ Planning for financial health	Yes
■ Understanding costs and achieving efficiencies	Yes
■ Financial Reporting	Yes
Governing the business	
■ Commissioning and procurement	Yes
■ Use of information	Yes
■ Good governance	Yes
■ Risk management and internal control	Yes
Managing resources	
■ Natural Resources	Yes
■ Strategic asset management	Yes
■ Workforce	Yes

29 I have reported my conclusions on each of the relevant areas previously to the Council in my Annual Governance Report but the key findings are summarised below.

Managing finances

30 Financial planning is good with integrated finance and performance planning, well managed spending and sound medium term planning. Financial reporting is improving, helped by the Council's new online financial management system.

31 The Council continues to understand its costs well with benchmarking and scenario modelling. It bases its budget on commissioning strategies from the new priority boards. VFM remains adequate with just below average spending and variable outcomes. Improvements in some areas are balanced by lower performance in others.

Governing the business

32 The Council is making progress in developing its own commissioning and procurement and recognises the need to develop shared commissioning with partners.

33 Planned improvements through support services transformation and better customer services have been slower but are now on track with revised plans.

34 Data quality is adequate and the Council has improved its performance management processes so that councillors and officers are better placed to make decisions.

35 Ethical governance is adequate and counter-fraud arrangements generally robust, although this was not the case at DMH. The Council is developing fraud and corruption arrangements for the Leicester Partnership.

36 Risk management and business continuity are adequate with the latter having been tested by a fire in the Council's headquarters.

Managing resources

37 The Council manages its assets very well. Its disposals and acquisitions have enabled major developments in the city. Its use of service information packs to make decisions about assets alongside is excellent. Detailed mapping of its own and other public services' assets in the city informed the Total Place pilot and enabled the Council to achieve Total Place Pathfinder status. It is extending this mapping to support regional procurement savings in construction and associated services. Its strong role in partnership and community working has led to multi agency provision in a number of sites. Work with allotment societies has led to oversubscription and at the same time, provided land for affordable housing and increased capital receipts.

38 The council is managing its workforce planning and development adequately with some strong features. It has improved some basic functions but it is too early to gauge improvements. It has reduced staff sickness absence. It has a strong buildings work apprenticeship programme which supplies 98 per cent of qualified staff and has trained over 100 women. The Council now handles organisational change well and has a good approach to equality issues, but still needs to implement the single status agreement.

Risk-based performance reviews

39 To support my review of the criteria I undertook the following studies.

- Initial Review of Area Based Grant (ABG).
- Organisational Development and Improvement.
- Overview and Scrutiny.
- Contract Procurement.
- Building Schools for the Future (BSF) Update.

40 I have reported my detailed findings, recommendations and action plans to the Council in separate reports. A complete list of the reports issued can be found in my closing remarks on page 12.

41 My risk-based performance reviews generally show that the Council is performing adequately and is taking appropriate action to address any issues and concerns. Following the 2007 Public Interest Report I have reviewed on an annual basis the progress being made by the Council on contract procurement. The results from my latest review indicate that satisfactory progress has been made and I do not intend, at this stage, to repeat the review in future years.

42 However I reported in June 2010 that overview and scrutiny is having limited impact; it is not challenging the Executive or shaping policy development. It is not effectively engaging with local people so that their views can shape service and policy development. But it is having a greater impact in monitoring and challenging the performance of Council services and some task group reviews have resulted in some positive changes.

43 My report contained a number of recommendations, which have been agreed with officers. However I have not yet seen your action plan to implement those recommendations.

Recommendation

R3 Review progress against the action plan in order to improve the overview and scrutiny function of the Council.

Approach to local value for money work from 2010/11

44 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

45 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

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

46 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial position

47 The main challenge facing the public sector is the ongoing economic downturn and the resulting increase in pressure on public sector bodies. This challenges the Council in two ways: resources in terms of funding from central government and other sources of finance such as grants are reducing, yet at the same time there is likely to be an increase in demand for services provided to the public, particularly housing benefits and social care.

48 The Government had already announced cuts to your 2010/11 funding which equate to over £9 million across all service areas. The Council has taken appropriate action to amend its budget and the medium term financial strategy. This work endeavours to find efficiencies and savings wherever possible and minimise the effects that these constraints will place upon service delivery.

49 The Government's Comprehensive Spending Review (CSR), announced in October 2010, sets out overall public spending levels for the period 2011/12 to 2014/15. Your Chief Finance Officer believes that the Council will face formula grant cuts of around 29 per cent in real terms over the period of which 11 per cent, or £19 million, is expected in 2011/12 assuming the local reduction is the same amount as the national one. Other grants may also fall. The Government has announced that it will maintain the level of schools funding, but this will not keep pace with rising pupil numbers.

50 There will also be reduced capital funding, which will impact on projects such as Building Schools for the Future. More details will be provided by HM Treasury and the Department for Communities and Local Government over the coming weeks and months.

51 Officers are rightly taking steps to ensure the impact of the CSR and the local government finance settlement will be taken into account in future financial plans. I will continue to monitor the Council's responses and actions in this key area through my VFM audit work.

International Financial Reporting Standards (IFRS)

52 The 2010/11 financial year will be the first time that local government bodies will be required to produce accounts that are compliant with International Financial Reporting Standards. The Audit Commission has emphasised the importance of Members in reviewing and challenging the progress of implementation.

53 My assessment in July 2010 indicated that the overall progress of the Council's plans to implement IFRS had slipped, particularly with regard to identification of contracts and arrangements containing leases. Little progress has been made since then.

54 However officers still expect to be able to produce restated 2009/10 accounts by January 2011.

Recommendation

R4 Ensure sufficient capacity is available to implement IFRS on time and monitor progress.

Closing remarks

55 I have discussed and agreed this letter with the Chief Executive and the Chief Finance Officer. I will present this letter at the Audit and Risk Committee on 9 February 2011. Copies will also be provided to all members and the letter will be published on the Council's website.

56 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Annual Report on Certification of Claims and Returns	February 2010
Audit Opinion Plan	April 2010
Organisational Development and Improvement	April 2010
Control of ABG - Initial Review	June 2010
Review of Overview and Scrutiny	June 2010
Annual Governance Report	September 2010
Opinion and VFM Conclusion	September 2010
Audit of Financial Statements	November 2010
Contract Procurement	November 2010
Annual Audit Letter	November 2010

57 The Council has taken a positive and helpful approach to our audit. I wish to thank your staff for their support and cooperation during the audit.

Neil Bellamy
District Auditor

November 2010

Appendix 1 – Audit fees

	Proposed	Actual	Variance
Financial statements and annual governance statement	149,700	160,700	11,000
Value for money	192,300	192,300	0
Total audit fees	342,000	353,000	11,000
Non-audit work	0	0	0
Total	342,000	353,000	11,000

The variance of £11,000 shown above is due to:

- late changes to the 2009 SORP in respect of accounting for PFI and similar contracts;
- additional testing to address weaknesses in payroll controls identified in the previous year; and
- extra work required as a result of delays in responding to audit queries, and considering the impact of material errors identified.

Appendix 2 – Action Plan

Page no	Recommendation	Priority 1=Low 2=Med 3=High	Responsibility	Agreed	Comments	Date
5	R1 - Ensure the accounts are prepared early enough to allow members sufficient time to scrutinise the accounts prior to approving them.	3	Chief Finance Officer	Yes		30 June 2011
6	R2 - Ensure that management takes action to achieve improvements in internal control at DMH and holds employees to account appropriately.	3	Audit and Risk Committee			
10	R3 - Review progress against the action plan in order to improve the overview and scrutiny function of the Council.	3	Audit and Risk Committee			
12	R4 - Ensure sufficient capacity is available to implement IFRS on time and monitor progress.	3	Chief Finance Officer	Yes		30 June 2011

Appendix 3 – Glossary

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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

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- any third party.



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