

Annual Audit Letter

Cumbria County Council

Audit 2010/11



Contents

- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Value for money4
 - Current and Future Challenges4
- Financial statements and annual governance statement.....5**
 - Overall conclusion from the audit.....5
 - Significant weaknesses in internal control.....6
- Value for money.....7**
- Current and future challenges10**
- Closing remarks14**
- Appendix 1 – Fees15**
- Appendix 2 – School balances.....16**
- Appendix 3 – Glossary18**

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.**

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 the Council's Statement of Accounts for the year 2010/11 on 29 September 2011.

The preparation of the 2010/11 accounts was particularly challenging following the introduction of International Financial Reporting Standards (IFRS). The changes led to new accounting requirements and many new disclosures which had to be prepared not only for 2010/11 but also for restated 2009/10 comparative figures. These changed requirements led to a great deal of additional work for both accountants and auditors.

I reported my detailed findings in my Annual Governance Report in September 2011.

Despite the challenges of IFRS implementation, the Council continued its trend of improving the quality of statement of accounts submitted for audit. In particular:

- the majority of the issues I raised in 2009/10 were reported correctly in the 2010/11 statements; and
- the quality of most of the working papers supporting the accounts improved again.

However, there were some significant issues arising from my audit.

- There were material errors affecting the cash flow statement; and I identified material errors affecting two disclosure notes: Note 43 on the future costs of the Council's three PFI schemes; and Note 42 on leases.
- However, none of these amendments affected the general fund balance, or the Council's usable reserves or the Council's net worth.
- The working papers underpinning the capital accounting entries were prepared late. These papers relate to entries affecting all the primary statements as well as a substantial number of disclosure notes.

Value for money

I issued an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources on 29 September 2011.

I reported that:

- the Council's medium term financial strategy (MTFS) recognises the reductions in available funding and plans are in place to reduce spending. A voluntary redundancy programme has started and the initial costs of the scheme of approximately £8 million were recognised in the Council's accounts for 2010/11;
- the Council's 'Better' programme is demonstrating improvements in service areas such as Highways, Transport, care of elderly people and Children's services. These are areas of relatively high spending; and
- schools' reserves have continued to reduce overall but action is being taken to ensure that schools with deficits return to financial balance within the next 12 months. Schools with excess surpluses are also under review to ensure there are proper plans in place for these surpluses.

Current and Future Challenges

All public sector bodies are required to make cuts in their spending following reductions in government funding for both revenue and capital. The Council has identified and started to make significant savings but still needs to find more to close the gap.

The Councils' spending on social services for older adults is higher than in other local authority areas. The Council is aware of this and has recently agreed plans to address the high cost areas.

The Council's schools' balances have again reduced between 2009/10 and 2010/11, although the rate of reduction has slowed down. Action is being taken to ensure that schools in deficit address the reasons for overspending and those with excessive surpluses may be required to return some of their unspent monies.

Although the Council already works in partnership with other bodies, it faces a step change in future when it will be required to take the lead in bringing together service commissioning for public health and social care.

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.

Overall conclusion from the audit

I issued an unqualified opinion on the Council's Statement of Accounts for the year 2010/11 on 29 September 2011.

The preparation of the 2010/11 accounts was particularly challenging following the introduction of International Financial Reporting Standards (IFRS). The changes led to new accounting requirements and many new disclosures which had to be prepared not only for 2010/11 but also for 2009/10 comparative figures. These changed requirements led to a great deal of additional work for both accountants and auditors.

I reported my detailed findings in my Annual Governance Report in September 2011 and summarise them here.

Despite the challenges of IFRS implementation, the Council continued its trend of improving the quality of statement of accounts submitted for audit. In particular:

- the majority of issues I raised in 2009/10 were reported correctly in 2010/11;
- the quality of most of the working papers supporting the accounts improved again;
- the Comprehensive Income and Expenditure Statement required very little amendment; and
- all grant claims were received on time and were supported by much improved working papers.

However, there were some significant issues arising from my audit. These included the following.

- There were material errors affecting the Cash Flow Statement and two disclosure notes:
 - Note 43 on the future costs of the Council's three PFI schemes; and
 - Note 42 on leases.

None of these amendments affected the general fund balance, or the Council's usable reserves or the Council's net worth.

- The working papers underpinning the capital accounting entries were prepared late. These papers related to entries affecting all the primary statements as well as a substantial number of disclosure notes.

In my Annual Governance Report I recommended that the Council should review its policies on valuing surplus assets and identifying those components of buildings which have a shorter life than the rest of the building. This is to ensure that depreciation is calculated correctly and that the Council's assets are valued correctly.

Significant weaknesses in internal control

Officers took a risk based decision in early 2011 not to rely on the fixed asset module to the e5 ledger in preparing the 2010/11 accounts. This was because, despite extensive work during the year with the software supplier, officers still do not consider the module to be fit for purpose. As a result, the fixed asset register is being maintained on a spreadsheet and accounting entries are being developed from this. This increase the risk of errors in accounting for fixed assets and associated transactions such as depreciation.

In my Annual Governance Report I recommended the Council improves the way in which it manages its fixed asset register and accounts for capital transactions.

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 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.

Value for money criteria and key messages

Criterion – Financial Resilience	Findings
<p>Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>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.</p> <p>The medium term financial strategy - The Government's Spending Review and resulting need for reduced spending places even greater importance on financial planning, monitoring and reporting.</p>	<p>Medium Term Financial Strategy (MTFS):</p> <p>The Council has set its MTFS recognising the financial pressures. For 2011/12 alone the Council is finding over £44 million of savings. I am satisfied that the Council is aware of the size of the expected cuts and has made robust plans to meet the pressures. A voluntary redundancy programme has started and the initial costs of approximately £8 million are recognised in the Council's accounts for 2010/11. The Council has prudently set aside reserves in recent years to meet:</p> <ul style="list-style-type: none">■ anticipated costs of implementing the Single Status agreement;■ the costs of meeting claims for equal pay; and■ further redundancy costs.

Criterion – Securing economy, efficiency and effectiveness

Findings

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

I identified two risk areas.

Relatively high cost - The Council appears to be relatively high cost when compared to other similar Councils.

Schools' reserves - I have commented in previous years on the number of schools in deficit and where deficits are growing.

Relatively high costs.

When compared with other similar councils, the Council's spending per head of population is high. However, the Council is aware of the areas where its spending is high relative to others.

It has embarked on its 'Better' Programme' which reviews services across the Council to identify scope for financial savings, efficiency gains and service improvements. I have discussed the work done to date with Directors. It is clear that the programme is resulting in improved processes and services as follows.

Highways – improvements in speed and quality of repairs to damaged roads.

Transport – savings expected from both changes to home to school transport for older pupils and also improved co-ordination of transport within local areas by considering all the different transport arrangements across Directorates.

Adults – improvements have been made in the quality of care for older adults in Barrow following the modernisation of older people's care homes, increases in community based provision and improvements in the quality of care provision for people with mental health care needs. The Council now plans to roll out similar improvements across the County. However, the Council's costs to provide care for older people will remain high compared with other similar authorities until Cumbria Care provision is reduced. The Council needs to consider how it will address this in its future plans.

Children – Savings are being achieved following a detailed review of the way local teams were organised and staffed. There is now a streamlined management structure with clearer reporting lines particularly for financial management. A programme to bring together information on pupil numbers, projections, performance measures and financial information is underway and the information will be used to reduce the number of surplus school places. School curricula are being reviewed to reduce inefficiencies.

Schools' Reserves: I have followed up the work I did last year to understand what the Council is doing about schools in deficit. I am satisfied the Council is taking action in respect of Schools' Reserves. The Audit and Assurance Committee received a report in March 2011 identifying the schools with either 'excess' deficits or 'excess' surpluses as at 31 March 2010. This report also set out the approach the Council is taking in ensuring all schools have robust plans in place to address problems. There is a risk that shortages will impact on the general fund balance if schools opt to move to academy status.

However, at the end of March 2011, the total balance on the Dedicated Schools Grant (DSG) monies ring fenced to schools had dropped by £1.911 million from a balance of £2.265 million at the end of March 2010 to a balance of only £354,000.

Taking Standards Fund monies and earmarked DSG reserves together, the number of schools in deficit has increased from 107 at the end of March 2010 to 111 at the end of March 2011. However, the total amount of the deficit has reduced from £8.5 million to £8.1 million. The main reason for the reduction is because Dallam School received a contribution of over £1 million to clear their outstanding deficit. In addition, the numbers of schools with excess deficits and excess surpluses have reduced between years. Schools with excess surpluses have reduced from 113 to 100 and schools with excess deficits have reduced from 82 to 77. Further work is being undertaken to address schools' surpluses and deficits during 2011/12.

The monies owed by Richard Rose Central – some £196,000 – reported in my Annual Governance Report for 2008/09, have still not been repaid to the Council by the academy.

Current and future challenges

Issue	Council action
Economic downturn and pressure on the public sector	<p>The Council has recognised the financial pressures resulting from the economic downturn and has started a programme of staff reductions, initially through a voluntary redundancy scheme. In 2010/11 almost £8 million was spent on redundancy costs to achieve savings of over £40 million over the next four years.</p> <p>Each year the Council consults on its budget proposals and has prepared a medium term financial strategy which takes account of the reduced funding. The 'Better' programme is looking at all the major service areas to find scope for efficiencies and economies. Over £61 million of savings have already been identified as a result of reductions in staff numbers and the 'Better' programme but further savings of over £23 million are still needed from 2012/13 onwards.</p> <p>Each Directorate has prepared a service information pack which includes workforce and financial information as well as comparative performance information and measures to identify proposals for further budget savings.</p> <p>However, the Council faces a very difficult challenge if it is to achieve its key priorities of challenging poverty and helping disadvantaged and vulnerable people while at the same time reducing overall expenditure. Some services have already been cut but, because more savings are needed, then more service reductions are likely. Although the Council is working hard maintain its services for the most vulnerable, this is likely to be increasingly difficult. The Council will need to be resolute in its efforts to secure savings in areas of relatively high spend or on discretionary services.</p>

Issue	Council action
<p>Cost of adult services</p>	<p>The Council's spend per head of population on adult social services is well above the average. The reasons for this include:</p> <ul style="list-style-type: none"> ■ higher numbers of places provided in the Council's own residential care homes which costs the Council an estimated £7.6 million a year; ■ higher costs of home care provided by the independent sector in Cumbria when compared with other authority areas; ■ a higher number of older people as a proportion of the total population than in other areas; and ■ a higher than average proportion of the population using these services. <p>The Council's costs to provide care for older people will remain high compared with other similar authorities until Cumbria Care provision is reduced. The Council needs to consider how it will address this in its future plans.</p> <p>The Council is also undertaking a tendering exercise for the provision of home and day care services which should result in a more efficient service provision and prices being reduced.</p> <p>The government is looking at the long term funding of social care and, following up the proposals of the Dilnot Commission, intends to issue a White Paper in Spring 2012. The Council will need to consider carefully the implications of these proposals as part of its future financial strategy.</p>
<p>School surplus places and school balances</p>	<p>The Council is reviewing its school provision to ensure that surplus places are addressed in order to be able to increase provision in the areas where the school population is growing.</p> <p>By the end of 2011 the balances on the Delegated Schools' Grant (DSG) which is ring-fenced to schools had reduced to £1.727 million. The balances as a proportion of the total DSG is the lowest in the Council's comparative group of authorities as shown in table 1 in appendix 2.</p> <p>As I have already highlighted earlier in my letter, action is being taken to reduce the number of schools in deficit and may claw back some of the excess surpluses to redistribute the unspent monies. Table 2 in appendix 1 show the movement on DSG balances in both 2009/10 and 2010/11.</p>

Issue	Council action
Joint arrangements	<p>In 2013 it is likely that the Council will take a lead role in ensuring public health priorities are in place (through the Health and Well Being Board). The relevant legislation is not yet complete, Councils will be required to work closely with health bodies including the new GP Consortia. Councils are expected to lead the integration of health and social care commissioning. The Council is already working to develop effective relationships with the GP consortia and is planning how these new duties can be integrated across all its service areas.</p> <p>The Council already has in place joint arrangements for internal audit services with other Cumbrian local authorities. Shared arrangements for providing legal services have also been developed which help to provide more resilient services. The Council has also entered into a shared service arrangement for its pensions function and for its occupational health service.</p>
Single status and Equal Pay	<p>The Council has been working to implement 'single status' for its staff. This agreement ensures terms and conditions for staff are harmonised across the Council. A significant amount of work has been undertaken to ensure all jobs were properly evaluated within the job families approach adopted and to consult with staff and unions as appropriate. This was completed in line with the agreed project timetable so that all staff were paid at their new rate with effect from 1 October 2011.</p> <p>Over recent years the Council has received and settled a significant number of equal value claims. It has been prudent in the way it has assessed and provided for the financial implications of these claims. Only a relatively small number of claims remain in respect of schools based non-teaching staff. The Council will need to progress these claims in the coming year.</p>
PFI schemes	<p>The Council has signed-up to three Private Finance Initiative (PFI) or Public/Private Partnership (PPP) arrangements.</p> <ul style="list-style-type: none"> ■ A PFI with Connect CNDR Ltd to build and manage the Carlisle Northern Development Route (CNDR). The link road is expected to be completed in 2013. ■ A PPP with Shanks Waste Management Ltd to construct and operate two waste treatment facilities to reduce the amount of waste sent to landfill. ■ A PFI with Balfour Beatty Fire and Rescue North West Ltd to build five new fire stations. The project is shared with Merseyside and Lancashire Fire and Rescue Authorities and is expected to be completed in 2013/14. <p>The schemes are designed to improve services and provide facilities with private money meeting the initial capital cost and risk and the Council paying for the service provision and buying the assets over a period of 25 years. It is vital that the Council has robust contract monitoring procedures to ensure that the providers are delivering the service that local people are paying for.</p>

Issue	Council action
Strengthening internal controls	<p>The Council has identified a number of instances recently where its internal control environment needs to be strengthened. These include:</p> <ul style="list-style-type: none">■ internal control weakness reported in the Council's own Annual Governance Statement;■ internal audit reports identifying control failures across a range of areas;■ weaknesses in the operation, management and monitoring of outsourced contracts; and■ a recent fraud loss which occurred because of a lapse in the specified internal controls in accounts payable. <p>Taken together, these issues suggest the Council may need to review its internal control environment and take steps to refresh the way in which the Council's culture and standards of conduct are communicated and understood by staff at all levels.</p>

Closing remarks

I have discussed and agreed this letter with the Chief Executive, the Director of Resources and the Assistant Director - Finance. I will present this letter at the Audit and Assurance Committee on 5 December 2011 and will provide copies to all Council members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Opinion Audit Plan	March 2011
Memorandum of findings from systems reviews in the interim audit	June 2011
Annual Governance Report	September 2011

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.

Karen Murray
District Auditor

November 2011

Appendix 1 – Fees

	Planned	Actual	Rebate	Final cost of audit fees	Variance from plan
Scale fee	£283,000	£303,200	(£22,015)	£281,185	(£1,815)
Non-audit work	No none audit work undertaken				
Total					

The planned audit fee for 2010/11 was agreed at £283,000 which was some £38,000 lower than the audit fee for 2009/10. The reduction reflected the fact that significant improvements had been made in the Council's arrangements to secure value for money and also in its preparation of the annual accounts. During the year the Audit Commission has reduced the audit fee by giving rebates totalling £22,015. However, because of the additional audit work on capital accounting, IFRS restatement and PFI accounting issues required to ensure the accounts gave a true and fair view I have had to increase my audit fee. In total the audit fee is £1,815 lower than the original agreed fee and £39,783 lower than the 2009/10 audit fee.

Appendix 2 – School balances

Figure 1: Cumbria County Schools' balances as a proportion of DSG as at 31 March 2010 compared with similar authorities

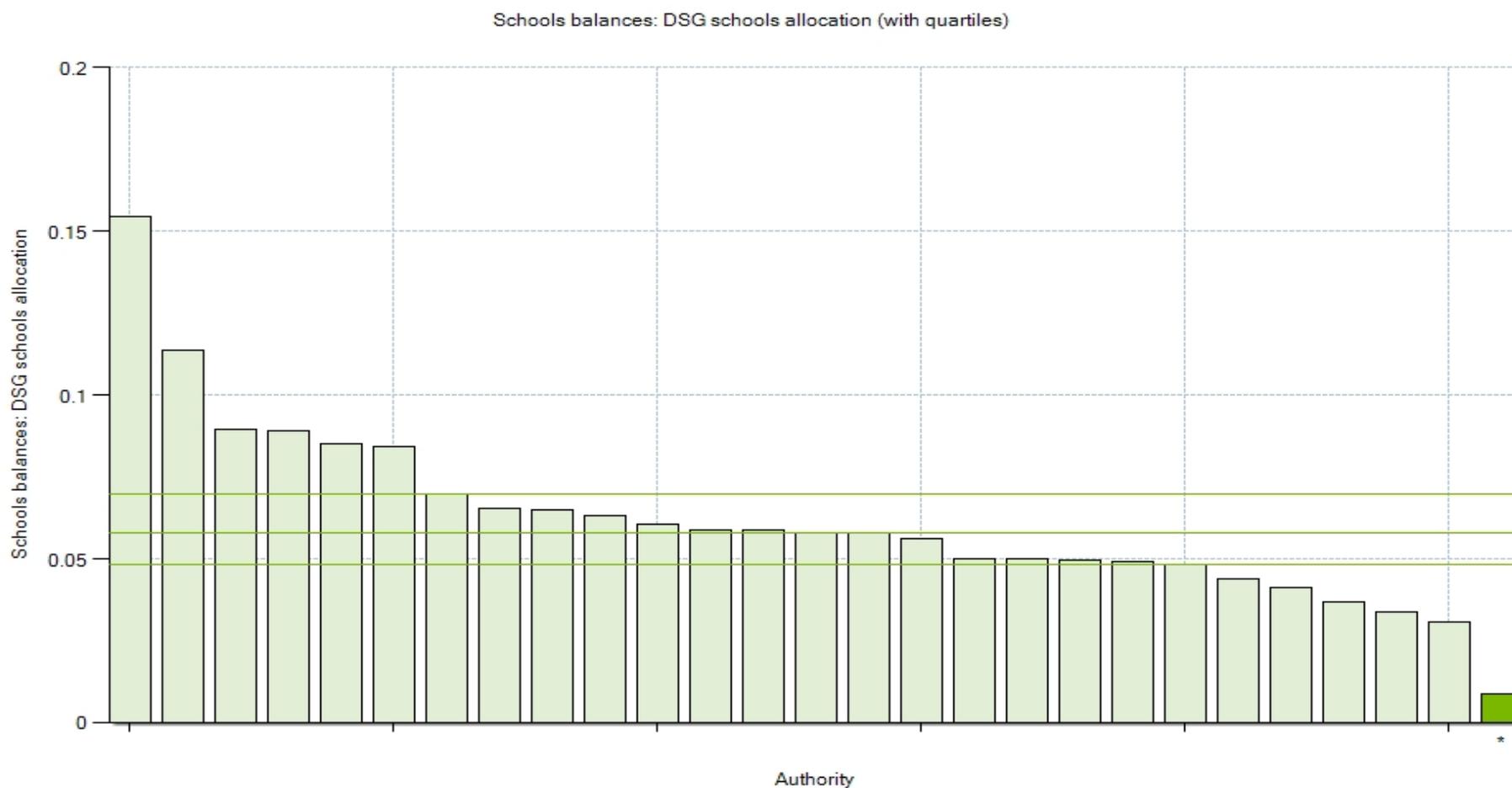


Table 1: **Movement on Ring-Fenced School reserves, 2010/11 and 2009/10**

2010/11 movement

School balance	Opening balances £m	Closing balances £m	Movement in the year £m	Number of schools
In deficit and deficit grew	3.422	4.991	1.569	42
In surplus but moved into deficit	-0.846	1.044	1.890	26
In surplus but surplus reduced	-5.945	-3.270	2.674	95
Deficit reduced	3.224	2.013	-1.211	41
Deficit became a surplus	1.808	-0.622	-2.430	22
In surplus and surplus grew	-4.204	-5.901	-1.696	91

2009/10 movement

School balance	Opening balances £m	Closing balances £m	Movement in the year £m	Number of schools
In deficit and deficit grew	2.700	6.800	4.100	49
In surplus but moved into deficit	-0.666	0.664	1.330	35
In surplus but surplus reduced	-7.384	-4.380	3.004	119
Deficit reduced	1.511	1.007	-0.504	22
Deficit became a surplus	0.146	-0.268	-0.414	15
In surplus and surplus grew	-4.657	-6.571	-1.914	80

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 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.

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