



Exeter City Council

Annual Audit Letter 2008-09

November 2009

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1 Introduction and key messages

Purpose of this letter

- 1.1 This annual audit letter summarises the key issues arising from the work that we have carried out at Exeter City Council ('the Council') during our 2008-09 audit. The letter is written in an accessible style, designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Council's website.

Responsibilities of the external auditors and the Council

- 1.2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).
- 1.3 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice issued by the Audit Commission. Our work considers the Council's key risks when reaching our Code of Audit Practice conclusions.
- 1.5 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.

What this letter covers

- 1.6 This letter covers our 2008-09 Code audit, including key messages and conclusions from our work in:
- auditing the 2008-09 financial statements (section 2); and
 - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (section 3).
- 1.7 We have not repeated the recommendations agreed with the Council during the year in this letter. A list of the reports that contain these recommendations can be found at appendix A.

Key messages for the Council

- 1.8 We issued an unqualified audit opinion on the Council's financial statements. The Council's finance team continues to respond positively to recommendations arising from our work and has delivered good quality financial statements in 2008-09. The Council is also making good progress against its plans for the implementation of International Financial Reporting Standards and has worked closely with us during the year to discuss emerging accounting and technical issues.
- 1.9 We issued an unqualified audit opinion on the Council's arrangements to secure value for money. For 2009-10, the Council needs to build on its use of resources scores and increase the focus on demonstrating clear outcomes. The following actions should be considered to improve arrangements further in 2009-10:
- develop its understanding of costs, compared to other organisations, and demonstrate robust challenge and actions to address high cost areas and improved value for money throughout the organisation;
 - ensure that Service Improvement Portfolios (SIPs) are implemented consistently across the Council's service areas to enable the Council to plan and manage its financial and operational performance in a more integrated way. Workforce plans should support this; and
 - ensure that operational risk registers are prepared and formalised for all service areas to ensure that the risks to delivering operational objectives and achievement of service plans are identified.
- 1.10 The context for these key messages can be found in this letter and management has agreed to implement our recommendations in these areas.

2 Audit of accounts

Introduction

- 2.1 We issued an unqualified opinion on the Council's 2008-09 accounts on 23 September 2009, in accordance with statutory timescales. Our opinion confirms that the accounts for the Council and its Group present fairly, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to "those charged with governance" (which was determined as the Final Accounts Committee). We presented our annual report to those charged with governance to the Final Accounts Committee on 23 September 2009 and summarise only the key messages in this letter.

Audit of the accounts

- 2.3 The Council prepared good quality financial statements, in line with statutory requirements. A number of presentational audit adjustments were required to the accounts, in particular relating to the presentation of the Housing Revenue Account balances in the Income and Expenditure account and the accounting for impairments of non operational assets, however none of these amendments affected the reported revenue outturn position for the year. The key actions identified from our work are set out below:
- the Council had not prepared a statement to set out its methodology and approach for 2007-08 and 2008-09 in determining a Minimum Revenue Provision for approval by members. This is required to demonstrate that the Council has made prudent provision for the financing of future capital expenditure. This should be subsequently undertaken each year, as part of the budget setting process. The Council plans to address this through the November 2009 committee reporting cycle; and
 - the group accounts included consolidated subsidiary accounts that had not been approved by their Board. The Council worked hard to rectify this issue to enable them to approve their accounts on 23 September 2009. Plans are in place to ensure that all subsidiary accounts that are to be consolidated into the Councils group accounts are approved prior to final approval by the Council within the 30 September deadline in future years.
- 2.4 Our annual report to those charged with governance reported one unadjusted item, which did not materially affect the accounts. This related to the valuation of the net pension assets undertaken by the Actuary that was estimated by the auditors of the

pension fund to be £508,000 higher than those assumed by the Council's actuarial report.

Financial performance

- 2.5 The Council has managed a challenging financial position during 2008-09. The new concessionary fares scheme has left a shortfall of some £1.3million in the Council's finances and it has also suffered from reduced income across a number of services during the economic downturn. The Council delivered its General Fund service plans for a total net cost of £20.202 million, an overspend of £570,000 against the revised budget of £19.633 million. The Council's General Fund Balance has therefore reduced during the year from £7.451 million to £5,583 million as at 31 March 2009. This is equivalent to about 34% of the net budget for 2008-09.
- 2.6 The Council's service committee net expenditure budget was set at the start of the year at £19.356 million. Subsequent to this supplementary budgets have been agreed revising the annual budget £19.812 million.
- 2.7 Our review of the latest quarterly revenue outturn report, to the end of month 3 (June 2009), shows the Council is forecasting an overspend of £524,270 against this budget. This forecast overspend primarily relates to:
- overspends within the community service budgets primarily resulting from additional expenditure in the use of private sector leasing, bed and breakfast accommodation and serviced temporary accommodation; and
 - overspends within the economy service budgets resulting from a predicted shortfall in car parking fees of £142,000 and reduced income and redundancy costs within the archaeological field unit forecasted at £250,000.
- 2.8 The overall net requirement from general fund working balances is currently estimated to be £2.992 million at 31 March 2010. This will reduce the working balance to £2.590 million by the end of the year. We will continue to monitor the Council's financial standing and its performance against budgets throughout the year.

Financial systems

- 2.9 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.
- 2.10 We completed a full review of the Council's Internal Audit Service in 2007-08, to assess its overall level of compliance against the CIPFA internal audit standards. We have revisited our findings this year to assess the progress made in responding to recommendations made last year. Overall, we concluded that Internal Audit comply with the standards, however continuing action is required to ensure that our recommendations from 2007-08 are fully implemented.

- 2.11 Our information systems specialist performed a high level review of the general IT control environment, as part of our assessment of the overall internal control system and concluded that, from the work undertaken to date, there are no significant weaknesses which could adversely impact on the Council's financial statements, though we have made two recommendations to improve the adequacy of IT controls.
- 2.12 We found that the Council's processes and controls for financial reporting were generally sound with only minor weaknesses identified regarding journals.
- 2.13 We have followed up the action plan arising from the 2007-08 interim and final accounts audits and concluded that progress had been made in addressing previous audit recommendations.

Annual Governance Statement

- 2.14 We have reviewed the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Council. Our review has confirmed the statement to be satisfactory and no adjustments are required to the presentation of the AGS.

Dealing with the public

- 2.15 We received one request to meet with an elector who wanted to raise a number of points regarding the Council's accounts, on the date appointed for this purpose. There were a number of issues raised and we have undertaken further work, where necessary, to gain sufficient assurance that these matters did not impact upon the Council's accounts or our opinion on them.
- 2.16 However, one of the areas raised, in relation to the expenditure incurred by the Council on the local government review, has highlighted that the Council's contract regulations have not been fully adhered to. We are satisfied that the contracts entered into were legitimate and that there is unlikely to have been a loss of public money. We have made a recommendation to the Council in order address this issue in the future and this has been accepted.

International Financial Reporting Standards

- 2.17 From 2010-11, the Council is required to prepare their Statement of Accounts under International Financial Reporting Standard (IFRS) based on an IFRS Code of Practice on Local Authority Accounting prepared by CIPFA. During our interim audit, we discussed with the relevant officers their readiness for conversion to IFRS and the preparation they have undertaken to date.
- 2.18 We are pleased to note that the Council are making positive steps towards conversion and in working in partnership with other Council's locally through the Devon Accounting Group for IFRS implementation, led by Devon County Council. The Council has acted upon our recommendations from the interim audit and has

prepared an IFRS project plan for the Council setting out the key milestones to be achieved in the transition timetable.

- 2.19 We have liaised with Council officers throughout the year to provide advice and support to the Council on the required accounting treatments under IFRS, where this will not compromise our independence, through sharing our experiences of IFRS transition from other public sector bodies and providing our views on the Council's interpretation of the draft IFRS Code of Practice, which will form the basis for the preparation of the Council's first set of IFRS accounts in 2010-11.

Certification of Grant Claims

- 2.20 In addition to our Code responsibilities, we are required, acting as agents of the Audit Commission, to certify a the Council's grant claims and returns, in accordance with the following arrangements:

- claims below £100,000 are not subject to certification;
- claims between £100,000 and £500,000 are subject to a reduced, 'light – touch' certification; and
- claims over £500,000 will be subject to a certification approach determined by the auditor's assessment of the control environment and management preparation of claims

- 2.21 We have already completed the certification of a number of claims for the Council relating to the 2008-09 financial year and have met all government department deadlines set under these arrangements. Our certification work is expected to be complete by the end of December 2009 after which we will prepare a separate grants report, summarising issues from the 2008-09 audit, to facilitate continuous improvement.

3 Use of resources

Introduction

- 3.1 We issued our annual Value for Money conclusion on 23 September 2009, at the same time as our accounts opinion, in line with statutory requirements. We concluded that, for 2008-09, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

2008-09 Value for money conclusion and use of resources assessment

- 3.2 Auditors inform and limit their value for money conclusion by reference to relevant criteria under the Audit Commission Code of Audit Practice. These criteria cover particular areas of audited bodies' arrangements specified by the Audit Commission under the Code of Audit Practice. From 2008-09, the key lines of enquiries for the scored use of resources assessment also form the criteria for the value for money conclusion. Failure to achieve an 'adequate' assessment in any one or more area results in either an "except for" or "adverse" overall conclusion, in respect of those specific areas.
- 3.3 We assessed the Council as achieving level two or above in all of the areas covered by our use of resources assessment. This enabled us to issue 'adequate' conclusions for all of the relevant criteria within our overall value for money conclusion.
- 3.4 These assessments, and their impact on the overall 2008-09 conclusion for the Council, are summarised in table 1 overleaf.

Table 1: Components of value for money conclusion 2008-09

Area	Source of evidence	Use of resources Score	Arrangements adequate?
Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	KLoE 1.1	2	Yes
Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	KLoE 1.2	2	Yes
Is the organisation's financial reporting timely, reliable and does it meet the of internal users, stakeholders and local people?	KLoE 1.3	2	Yes
Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	KLoE 2.1	3	Yes
Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	KLoE 2.2	3	Yes
Does the organisation promote and demonstrate the principles and values of good governance?	KLoE 2.3	2	Yes
Does the organisation manage its risks and maintain a sound system of internal control?	KLoE 2.4	2	Yes
Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	KLoE 3.3	2	Yes

Key for KLoE scores:
 1 - Below minimum requirements - inadequate performance
 2 - Meets minimum requirements – performs adequately
 3 - Exceeds minimum requirements – performs well
 4 - Significantly exceeds minimum requirements – performing excellently

Note that KLoE 3.1 'Managing natural resources' and KLoE 3.2 'Managing assets' were not applicable to the Council for 2008-09

3.5 The Council's use of resources scores in the three themes, drawn from the scores above, are summarised in table 2.

Table 2: Use of resources scores

Theme	2009
1 Managing finances	2
2 Governing the business	3
3 Managing resources	2

- 3.6 Overall, we have assessed the Council as having sound arrangements in place across all areas, with particularly strong performance in 'the governing the business' theme. We found good practice in many areas and, looking forward, the Council is in a strong position to build upon these to secure an improved assessment once sustainable outcomes can be demonstrated across all of the Council's activities. We recognise some of the innovative approaches adopted by the Council in the delivery of quality services and submitted to the Audit Commission, as an example of good practice, the Council's development of its sustainable procurement and commissioning strategy and the work of its Green Accord Scheme, as assessed under KLOE 2.1. The Audit Commission has confirmed that this example is one of those that they intend to publish on its internet site with a view to promote good practice nationally across other public sector bodies.
- 3.7 The scores achieved by Exeter City Council are fairly representative of the assessments of Council's nationally. This is a result of the new, more demanding assessment criteria which demand, amongst other things, demonstration of improved service delivery outcomes, rather than simply robust arrangements and improved outputs, which allowed Councils to achieve higher assessment ratings in the past.
- 3.8 The key actions for the Council arising from our assessment include the following:
- Service Improvement Portfolios (SIPs) should be implemented consistently across the Council's service areas to enable the Council to plan and manage its financial and operational performance in a more integrated way. Workforce plans should support this;
 - the Council should further develop its benchmarking arrangements and manage its costs, performance and productivity closely to challenge why and how it provides services and whether, with partners, there are alternative options; and
 - operational risk registers should be prepared and formalised for all service areas to ensure that the risks to delivering operational objectives and achievement of service plans are identified and managed effectively.
- 3.9 We are in the process of agreeing an action plan with management to implement these and our other detailed recommendations. We will follow-up the progress on the implementation of these as part of our 2009-10 audit.
- 3.10 A summary of our detailed findings for each theme area is provided in the following paragraphs. This highlights the key areas, or characteristics, where the Council is performing well as well as those areas where it needs to focus in order for it to improve its assessment.

Links to Comprehensive Area Assessment

- 3.11 The findings from our work are also considered by the Audit Commission's Comprehensive Area Assessment (CAA) Lead along with their own work on 'Managing Performance' to determine the overall Organisational Assessment. This

assessment then feeds into the CAA for the area as a whole. The CAA work is reported separately by the Audit Commission and, as such, is not repeated within this report. However, we have held discussions with the CAA Lead to ensure that our work and judgements are consistent with their own and represent a full and fair reflection of the Council.

Managing finances

- 3.12 This theme focuses on assessing whether the Council has sound strategic and financial management, that is, whether it plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance, and whether its financial reporting is timely, reliable and meets the needs of its population. We assessed the Council and awarded an overall theme score of two, concluding that it is performing adequately.
- 3.13 The Council has sound financial and strategic planning processes that link to its corporate improvement priorities and is underpinned by a medium term financial strategy (MTFS) and corporate plan. Service Improvement Plans are currently being developed within service areas which will enable the Council to plan and manage its financial and operational performance in a more integrated way in future years.
- 3.14 The Council sets and approves a balanced annual budget and has a robust planning cycle that underpins this. Whilst the Council has a good track record in achieving its budgets and efficiency targets, the delivery of specific savings targets and efficiencies needs to be clearer as currently this is consolidated into the monitoring of the baseline revenue budget. The level of reserves are monitored closely and there are clear plans in place, through the MTFS, to utilise these reserves to help manage the current financial pressures. These have been exacerbated by the impact of the concessionary fares scheme and the downturn in the economic climate.
- 3.15 Overall, the Council provides good quality services at low cost when compared to others and has demonstrated a good understanding of its costs. We have found some particularly strong examples of good practice, such as in Housing Services where the Council is developing its understanding of costs and factors that influence these by comparing and benchmarking unit cost information. However, this is not being replicated across all service headings. As such, the Council should continue to develop a sound understanding of activity and service costs and performance across all of the Council's services and seek improved value for money from this. How it is using partners to challenge resources and deliver value for money should also be more clearly demonstrated.
- 3.16 There is a strong and effective accounts closedown process in place with information being made available on a timely basis. The accounts are consistently prepared and approved, submitted and published in accordance with statutory requirements and are supported by clear and comprehensive working papers. Our audit in the last two years has only identified a small number of non-trivial errors in the accounts, demonstrating the Council's strong performance in this area.

Governing the business

- 3.17 This theme focuses on strategic commissioning and good governance, in particular how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people. We assessed the Council as achieving an overall theme score of three, concluding that it is performing well.
- 3.18 The Council has developed a strategic approach to the commissioning and procurement of services. This is set out in its Sustainable Commissioning and Procurement Strategy and is underpinned by a thorough assessment of the social, economic and environmental issues facing Exeter, which includes an understanding of the inequalities of its community and their needs for services over the longer term.
- 3.19 The Council recognises the importance that relevant and reliable data has in underpinning decision-making and performance management. It has established clear procedures for data quality and a range of systems and processes for the collection, recording and analysis of performance data. Responsibility and accountability for data quality is formally defined at corporate level and some data sharing protocols have been developed.
- 3.20 The Council has sound arrangements in place for promoting and demonstrating good governance. The corporate Scheme of Delegation, Financial Regulations and Constitution detail the roles and responsibilities of those involved in governance and there is a code of conduct for members and officers. The Standards Committee is operating effectively, hospitality and gift registers are in use, are actively managed and compliance with them is reviewed. A whistle-blowing policy is also in place which is publicised on the corporate website and we have identified that there is a high level of awareness of the policy amongst members and officers.
- 3.21 The Council has adequate arrangements in place for the management of its corporate risks and for maintaining a sound system of internal control. There is a risk management policy and the risk management arrangements link to key corporate and strategic objectives, though these arrangements would benefit from an internal review to ensure that they remain fit for purpose. In addition, the Council should focus on implementing effective operational risk management arrangements at the service level ensuring that risk registers are prepared by all departments, linked to service improvement portfolios and monitored on a regular basis.
- 3.22 The Constitution sets out sound arrangements for the effective governance and assurance arrangements of the Council's activities. There is a business continuity plan which is reviewed and regularly tested. The Scrutiny Resources Committee is robust in its delivery of the role of an audit committee, but could be enhanced if it undertook a more formal assessment of its activities to confirm its effectiveness, identifying those areas of strength and those which could be developed further.

Managing resources

- 3.23 This theme considers areas which have not, previously, been assessed on their own in detail, the use of its natural resources, assets and workforce. The use of natural resources and assets has not been considered in 2008-09 as the Audit Commission

has prescribed that the introduction of assessed themes will be phased over three years. The third area in this theme seeks to establish whether the Council has a productive and skilled workforce, knows in the medium to longer term what staff it will need, with what skills, and has plans to achieve this.

- 3.24 Overall, the Council has sound arrangements in place to manage its workforce, with good examples of initiatives in place to develop its workforce, manage its staff effectively and establish robust working practices. The Local Government Review in Devon has impacted upon the embeddedness of some of these processes, due to future uncertainty, and some corporate documentation requires updating once future arrangements have been confirmed. There is clear evidence that the Council is effective in engaging and supporting staff through various communication methods and provides support to staff directly impacted by change.
- 3.25 The Council is active in reviewing workforce requirements and prepares information annually to members on the workforce profile to the Council and future implications of decisions, including comparisons with other bodies. Further evidence of how the Council's actions are leading to attributable outcomes is required to meet level three, to be able to demonstrate that the workforce planning is actively supporting strategic policies and driving the Council forward.

4 Closing remarks

- 4.1 This letter has been discussed and agreed with the Council's Senior Management Team on 3 November 2009, and is now presented for members' consideration at Scrutiny Resources Committee.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit. 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.

Grant Thornton UK LLP
November 2009

Appendix A 2008-09 reports issued

Report	Date issued
Audit plan	April 2008
Interim report	May 2009
Annual report to those charged with governance	September 2009
Opinion on financial statements	September 2009
Value for Money Conclusion	September 2009
Use of Resources report	October 2009
Annual audit letter	October 2009
Grants report	Anticipated - December 2009

Appendix B Audit and other fees 2008-09

Audit area	Budget 2008-09 (£)	Actual 2008-09 (£)
Financial statements	64,600	64,600
VFM conclusion / Use of resources	38,905	38,905
Total Code of Practice fee	103,505	103,505



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