

AUDIT COMMITTEE

20 DECEMBER 2012

ANNUAL AUDIT LETTER AND FINAL FEE LETTER 2011/2012

Report from: Mick Hayward, Chief Finance Officer

Author: Mick Hayward, Chief Finance Officer

Summary

This report and attachments reflect the work carried out by PKF, our external auditors, in respect of the 2011/2012 financial year.

1. Budget and Policy Framework

- 1.1 The receipt of the Annual Audit Letter and External Audit Fee Letter are matters for the Audit Committee.

2. Annual Audit Letter 2011/2012

- 2.1 Independent external auditors are responsible for preparing an annual audit letter for all councils. The letter is designed to communicate their key messages and conclusions to the council and external stakeholders, including members of the public.
- 2.2 The annual audit letter for 2011/2012, produced by PKF, is attached as Appendix 1 to this report. The letter summarises the key issues arising from the work PKF have carried out during the year ending 31 March 2012 and relates to their responsibilities in both finance and governance matters.
- 2.3 Set out below is an overview of the key findings contained within the 2011/2012 Annual Audit Letter:
- 2.3.1 Accounts
- An unqualified true and fair view was given on the financial statements for the year, which were properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.
 - Arrangements for preparing the annual financial statements have improved but require further strengthening.
 - PKF's audit identified non-trivial (but not material) errors that the Council corrected.

- PKF were satisfied that the Annual Governance Statement was not misleading or inconsistent with other information they were aware of from their audit.

2.3.2 Internal Control

- PKF identified areas where deficiencies in internal controls should be improved or where the control environment could be strengthened. Action has been taken to ensure financial operating procedures are followed for the authorisation of purchase orders, journals and sundry debtor requisitions.
- The external auditor reported that they are able to rely on the work of Internal Audit.

2.3.3 Whole of Government Accounts

- A full assurance review of the Whole of Government Accounts Return was undertaken in line with guidance from the National Audit Office. PKF recommended some amendments to the return based on our audit work and an unqualified opinion was given.

2.3.4 Use of Resources (Value for Money)

- PKF are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.
- An unqualified value for money conclusion has been issued.

2.4 The key findings from PKF's work are explained in more detail within Appendix 1. It is noted that PKF's detailed findings and recommendations were also reported to the Audit Committee on 26 September 2012 within the Annual Governance Report.

3. Final Fee for the audit of financial statements 2011/12

- 3.1 The Audit Commission's Standing Guidance for Auditors requires the Council's external auditors to report the outturn fee position for the year against the budgeted fee included within their Audit Plan. This is detailed within Appendix 2 to this report.
- 3.2 It is noted that the total fee for 2011/12 is £418,100, representing a variance of £22,000 between the planned and actual fee. This is attributable to a £29,000 increase in the fee for the audit of the 2011/12 financial statements and a reduction of £7,000 for the audit of grant claims, which is within the budgeted allocation.

4. Financial and Legal Implications

- 4.1 There are no legal and financial implications arising from this report.

5. Risk Management

- 5.1 As the majority of the letters relate to activities of the Council during 2011/2012 no risks are identified. However, value for money is one of the two core values for the Council and, in an ever more demanding financial environment, is of prime importance in ensuring that service delivery remains as effective as the letter portrays.

6. Recommendation

- 6.1 The Audit Committee note the content of the Annual Audit Letter for 2011/2012 and External Audit Fee Letter.

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Background papers: None

Lead Officer Contact:

Mick Hayward: Chief Finance Officer

Annual Audit Letter 2011/12

Medway Council

OCTOBER 2012



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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Local Government Code of Audit Practice

[Statement of Responsibilities of Auditors and of Audited Bodies](#)

Executive summary

This Annual Audit Letter summarises the findings of the work we have completed in respect of the year ending 31 March 2012. Our detailed findings and recommendations were reported to Management and the Audit Committee in our Annual Governance Report (on 26 September 2012).



Accounts

- The financial statements give a true and fair view of the Council's financial affairs and income and expenditure for the year and were properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.
- Arrangements for preparing the annual financial statements improved compared to previous years but require further strengthening.
- Our audit identified non-trivial (but not material) errors the Council corrected.
- The Annual Governance Statement was not misleading or inconsistent with other information of which we were aware.



Internal control

- We identified areas where deficiencies in internal controls should be improved or where the control environment could be strengthened. Action has therefore been taken to ensure financial operating procedures are followed for the authorisation of purchase orders, journals and sundry debtor requisitions.
- We were able to rely on the work of Internal Audit.



Whole of Government Accounts

- We completed a full assurance review of the Whole of Government Accounts return. We recommended some amendments to the return based on our audit work and an unqualified opinion was given.



Use of resources

- We are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.
- We issued an unqualified value for money conclusion.

Introduction

The purpose of this letter

The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to the Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public.

The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Responsibilities of the auditors and the Council

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Scope of the audit

Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Reporting the audit

We provided reports to 'those charged with governance' (the Audit Committee) and management on the findings of the audit focusing on key issues regarding internal control, financial governance, accounting arrangements and operational performance. We aim to provide management with clear recommendations to assist with governance and service improvements that will add value to the audit.

Reports issued during the year were:

- Audit Fee Letter issued April 2011
- Grants and certification work (2010/11 returns) issued January 2012
- Annual Audit Plan issued February 2012
- Annual governance report to those charged with governance issued September 2012
- Annual Audit Letter issued October 2012.

Acknowledgement

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

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

Key findings

ABOUT THE COUNCIL

Medway Council is a Unitary Authority responsible for delivering services, including education and social services, to more than 250,000 residents in Rochester, Strood, Chatham, Gillingham, Rainham, the nearby rural areas and the Hoo Peninsula. The provision of these services is overseen by 55 Councillors elected from the 22 Wards in the area. The Council has set an ambitious vision for Medway to be a city 'Rich in Heritage and with a Great Future'. The Council's core values put the customer at the centre of everything it does and it aims to give value for money. The Council's business plan ('The Council Plan') highlights five priorities which underpin achievement of the vision. The five priorities are:

- Safe, clean and green Medway
- Children and young people have the best start in life in Medway
- Adults maintain their independence and live healthy lives
- Everybody travelling easily around Medway
- Everyone benefiting from the area's regeneration.

The Council spends around £700 million annually on services such as culture, planning, education and children's social care, highways and transport, adult social care and benefit payments. About £11 million of total expenditure is spent on maintaining the Council's housing stock. Budgets managed directly by schools amounted to about £175 million. Some £76 million was spent on capital projects in 2011/12 with further investment amounting to £154 million planned over the medium term. Further information on the activities of the council is detailed in its annual report ('The Council Plan report') which is publicly available on the Council's website at www.medway.gov.uk.

ACCOUNTS

Financial statements

The Council's arrangements for preparing and publishing its annual financial statements have improved compared to previous years. However, further work is necessary to establish fully effective arrangements. In particular, we have recommended the Council ensures the closure of accounts timetable includes sufficient resources to complete a qualitative review of the draft financial statements to remove errors and resolve inconsistencies before submission to audit.

We issued an unqualified true and fair opinion on the financial statements on 28 September 2012. No material misstatements were identified as a result of our audit work which is an improvement on previous years. We identified a number of non-trivial misstatements and inconsistencies in disclosures. The majority of these related to property, plant and equipment balances and were corrected by management. We also estimated two non-trivial but not material errors relating to infrastructure assets the Council decided not to amend. Management concluded the errors mostly arose following the implementation of new procedures for maintaining the fixed asset register.

Officers have accepted our recommendation to enhance the information provided in the explanatory foreword to enable readers of the financial statements to more fully understand Medway's financial and operational performance for the year. The Council has also agreed to ensure accounting policy disclosures and other notes to the financial statements more fully follow the requirements of the Cipfa Code of Practice and Accounting Standards.

Annual governance statement

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

Internal control

Working with Internal Audit, we identified areas where deficiencies in internal controls should be improved or where the control environment could be strengthened. Action has therefore been taken to ensure:

- procedures established for the authorisation of purchase and non-purchase orders are fully followed
- journals are appropriately prepared, reviewed and authorised
- the appropriate authorisation of sundry debtor requisitions.

WHOLE OF GOVERNMENT ACCOUNTS

We carried out a full audit of the Council's Whole of Government Accounts return (WGA) in line with the guidance and thresholds set by the National Audit Office to determine whether the WGA was consistent with the statutory financial statements. Working with officers, we found some inconsistencies with the financial statements which were corrected. The action agreed by the Council to ensure additional resources are available to improve further the accounts closedown process should assist in reducing the inconsistencies between the WGA and the financial statements in the future. We recommended the Council completes a comprehensive review of the WGA before it is submitted to audit.

The amended WGA was consistent with the financial statements and we issued an unqualified assurance statement on 3 October 2012.

USE OF RESOURCES (VALUE FOR MONEY)

Financial resilience

Our financial resilience work reviewed the Council's arrangements for financial governance, financial planning and financial control, including improvements in arrangements over the prior year.

The Council provides clear and consistent leadership on financial matters through the work of the Cabinet and the Senior Management Team. Financial and Service Planning arrangements are aligned, with all staff encouraged to contribute to the process. Stakeholders, service users and other strategic partners are consulted where changes to services are under consideration. Over the last 12 months, effective consultation has been completed to ensure Medway's stated priorities remain appropriate and the Council Plan has been updated accordingly. Medway is addressing the uncertainties over future financial settlements and the additional costs expected from the localisation of council tax and changes to the benefits system at the national level. For instance, effective scenario planning has identified the reduction in expenditure and the level of efficiency savings the Council requires to ensure a sustainable financial position over the medium term (to 2016). Annually, service managers prepare integrated service and financial plans, utilising available cost and other benchmarking information.

Challenging economy, efficiency and effectiveness

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

To assist in addressing the risks and uncertainties over future financial settlements provided by Central Government and the additional costs expected from the increased demand for services, the Council has progressed the 'Better for Less' Transformation Programme. External consultants are working with the Council to transform customer contact and administration services, identifying opportunities for savings and better performance based on national benchmarks and local

performance measures. The implementation of shared services for customer contact and administration services is being rolled out across all Council departments in four phases. The first phase went live in quarter four of 2011/12. The programme is on target to deliver projected financial savings, with £1.8 million (full year effect) achieved from Phase one of the project, ahead of the target level (£1.7 million). The largest service area included in Phase one was Adult Social Care and the majority of efficiency savings (£1 million) came from that service. Recurring savings from the 'Better for Less' programme are expected to increase to £5.6 million per annum by 2015/16 and to recur thereafter. The Council recognises further recurring savings will need to be identified beyond this aspect of the programme over the medium term to assist in balancing its finances.

The 'Better for Less' programme delivers new ways of providing shared internal services and meeting customer needs. A strand of this programme responded to the fragmented nature of the Council's commissioning and procurement arrangements. To address this, the 'Category Management' approach has been developed in the year, designed to ensure corporate procurements are undertaken efficiently and consistently. This new operating model will be fully introduced in 2012/13. The Council concludes the performance of its major procurements is improving through the work of Members and management involved in the 'Gateway' process. Where procurements have not been delivered well, the Council examines the underlying reasons, publishing improvement plans as appropriate.

FINANCIAL AND OPERATIONAL PERFORMANCE

Financial Performance

The budgeted gross expenditure for services in 2011/12 was £612 million. The Council planned to reduce its reserves by about £600,000 to support the annual budget. In the event, the Council's effective financial management meant reserves increased by £2.2 million, providing additional flexibility in developing the 2012/13 budget and the Medium Term Financial Plan (published for the period 2013 to 2016 in October 2012). As at 31 March 2012, the general fund balance amounted to £10

million and met the benchmark level recommended by the Chief Finance Officer based on his risk assessments. Other general reserves of £7.9 million are available. The Council's earmarked general reserves amounted to a further £9.8 million. The level of the Housing Revenue Account balance reduced from £6.1 million to £4.8 million in the year to meet the Council's objectives for improving its housing stock. The Chief Finance Officer considers the level of general reserves and balances to be the minimum required to ensure identified financial risks are mitigated and to protect the Council from unforeseen events.

Operational Performance

The Council publishes (in the annual Council Plan report) its performance towards key performance indicators underpinning its priorities for a 'safe, clean and green Medway, children and young people in Medway have the best start in life, adults maintain their independence and live healthy lives, everyone travelling easily around Medway, and everyone benefiting from the area's regeneration.' The quarterly performance reports published throughout the year are comprehensive and enable the Cabinet and the Scrutiny Committees to review and challenge outcomes.

The Council reported performance for 75 key measures and targets against its priority areas as at 31 March 2012. Outturn reports show that 42 targets (56 per cent)) were achieved; seven targets (9.3 per cent) were judged to be amber and within a reasonable tolerance of achievement; 19 targets (19.3 per cent) were not achieved. Performance against seven targets was not published (mainly because of the timing of satisfaction surveys). A summary of the Council's performance against each priority is shown below.

Safe, clean and green Medway

The Council met most targets underpinning achievement of its 'clean and green' priority through effective partnership working. Medway's community teams and its Partnership Office developed and led an initiative known as 'community clean ups' and secured positive feedback from local people. The Council surpassed its targets for street cleanliness (including litter, detritus and graffiti) and achieved improved satisfaction levels for the performance of the refuse collection service (93 per cent of

customers were satisfied based on the Council's survey in the year). The majority of performance indicators were met in relation to a 'safe' Medway, however low satisfaction with community officers was reported and the Council is now addressing this feedback.

Children and young people have the best start in life

Performance towards the Council's priorities for children and young people in Medway was mixed. Medway continues to improve performance and met its targets for the number of children requiring core assessments. However, due to the increase in the number of referrals and the complexity of cases in the year, the target for completing initial assessments for children's social care within 10 working days of referral (78 per cent) was not met (actual performance was 68.6 per cent). In addition, the percentage of core assessments for children's social care carried out within 35 working days of their commencement (target 72 per cent) reported actual performance of 65 per cent. The Council has put additional resources and measures in place to improve performance towards its targets in these areas.

Special Education Needs (SEN) services remain expensive compared to other local authorities (based on the Audit Commission's national benchmarks in 2010/11). Work is now underway to review Council policies and procurement arrangements for SEN Transport. The Council is working with the 'South East 7' group of local authorities to pilot new assessment arrangements for children with special educational needs. It is also developing more local provision to reduce the number of children with statements of need being placed out of area. It has also reviewed the procurement of mental health services and taken provision back in-house pending a longer term evaluation of future options.

Educational attainment targets were not consistently met in 2011/12. In particular, looked after children and SEN pupils achieving 'five A* to C' GCSE grades (including English and Mathematics) and outcomes for pupils at Key Stage 2 remain areas for attention, as shown below.

Performance Indicator	Target	Actual 11/12	June 2012
Looked after children achieving 'five A*-C' GCSEs (or equivalent) at key stage 4 (including English and Mathematics)	17%	21.6%	12.9%
The Special Education Needs (SEN)/non-SEN gap – achieving 'five A*-C' GCSE including English and Mathematics	46.0%	41.0%	46.4%
Achievement at level 4 in both English and Mathematics at Key Stage 2	68%	76%	12/13 target is 74%

Adults maintain their independence and live healthy lives

Performance towards the Council's targets for 'adults maintaining a healthy and independent lifestyle' was mixed in the year. None of the targets for undertaking carers' assessments were met and meeting the stretch targets for self directed support payments is acknowledged as challenging at the national level (though the Council's performance has improved compared to the prior year). More positive performance was reported towards targets for independent living and an improving trend for social care assessments, as shown below.

Performance Indicator	Target	Actual 11/12	June 2012
Achieving independence for older people through rehabilitation/intermediate care	87.4%	88%	91.9%
Timeliness of social care assessments (all adults) - % from first contact to completion of assessment within four weeks	94%	75%	85%

Everyone benefiting from the areas regeneration

The Council met the majority of its targets for improving the quality of new and existing homes, for ensuring people have the skills to take up job opportunities and for promoting Medway as a destination for culture, heritage, sport and tourism. Most notably, user satisfaction at certain leisure facilities showed 97 per cent of customers rated services as 'good or brilliant'. The average satisfaction rating across all leisure centres was 86 per cent compared to the Council's target of 80 per cent, with the

Council identifying some areas for improvement at specific centres based on customer feedback.

Everyone travelling easily around Medway

The Council recognises the achievement of targets for transport can be problematic, with outside factors often determining outcomes and subsequent customer satisfaction with the services provided. Nevertheless, the Council continues to publish and monitor progress towards a range of challenging targets. Successful outcomes over the last 12 months include:

- the Chatham Waterfront Bus Station opened in October 2011 and now enables one thousand bus services each day
- the Urban Traffic Management and Control Centre became fully operational and aims to improve traffic flow throughout and the Medway area
- Medway Tunnel is now owned by the Council and phase one of the upgrade work has been completed.

Performance in 2012/13

As at 30 June 2012, the Council reported progress towards 10 performance indicators was behind target and that management action was underway to address the situation, as shown below.

Performance Indicator	Target	Actual 11/12	June 2012
Carers receiving needs assessment or review and a specific carer's service, or advice and information	15.0%	5.0%	2.2%
Number of households living in temporary accommodation	109	110	118
Percentage of core assessments for children's social care that were carried out within 35 working days of their commencement	69.1%	72.0%	53.5%

Performance Indicator	Target	Actual 11/12	June 2012
Numbers completing the 'MEND' healthy living programme	87	22.5	13
Satisfaction with road maintenance	49.75%	50%	44%
Number of jobs created and safeguarded	530	90	15
Employment that has lasted 26 weeks	147	35	27
Satisfaction with how the Council deals with graffiti	76.25%	80%	70%
Satisfaction with street cleaning	74%	75%	72%
% of people who believe people from different backgrounds get on well together in their local area	65.3%	66.0%	61.0%

FINANCIAL AND ECONOMIC OUTLOOK

In developing the 2012/13 budget, the Council identified a resource gap of £6.4 million when the Government finalised its financial settlement and after taking account of the efficiency savings and additional income expected for the year. Individual Portfolio Holders then worked with management to address the budget gap and measures were agreed to reduce expenditure within departments while maintaining service standards based on the Council's risk assessments. The 2012/13 budget is balanced with progress monitored throughout the year.

The Council reported an overspend (for the year) of £1.7 million may be incurred as at the end of June 2013, which compares favourably to the £4 million overspend identified for the same period in the previous financial year. The main areas of overspend are within the Children's and Adult Services department, the Regeneration department and the Community and Culture department. Management action, involving further investment in service efficiencies and reductions in expenditure, has been taken to reduce the projected overspend to about £1 million and further work is underway to achieve a balanced financial position as at 31 March 2013.

The approved capital programme for 2012/13 amounts to £104.6 million, which includes £82.9 million in respect of schemes rescheduled from previous years. The first quarter monitoring report shows 95 per cent of schemes are progressing well and are forecast to complete on time and within budget.

The Council published a medium term financial plan for the period 2013 to 2016 in October 2012. The Council identified significant risks which it concludes will need to be addressed through increasing the council tax base amount, managing reductions in formula grant settlements and the transition to a smaller number of schools based on the Academies programme. Measures have been put in place to balance resources and the expected demand for services through the Better for Less Programme and realising the expected benefits of the Category Management commissioning and procurement project.

The economic downturn continues to limit the amount of income the Council secures from its investments and certain income streams remain under pressure. While Medway is well placed to manage such uncertainty through its comprehensive approach to financial planning, and the measures highlighted earlier in this letter about its work to ensure everyone benefits from the area's regeneration, the overall financial position and achievement of economic targets will continue to require careful management.

Councillor Clarke
Members of the Audit Committee
Medway Council
BY EMAIL

Appendix 2

11 October 2012

Dear Councillor Clarke

Final fee for the audit of financial statements 2011/12

The Audit Commission's Standing Guidance for Auditors requires us to report the outturn fee position for the year against the budgeted fee included within our Audit Plan. You will recall my annual governance report, presented to the Audit Committee on 26 September 2012, included a proposal to increase the fee for the audit of the 2011/12 financial statements. I have now concluded my discussions with officers and can confirm the additional fee for the audit of the 2011/12 financial statements amounts to £29,000.

I have reduced the fee for the audit of grant claims by £7,000 given the reduction in the number of claims we are required to audit. The table below sets out the final fee compared to the planned fee.

Work area	2010/11 Actual Fee	2011/12 Planned Fee	2011/12 Actual Fee	Variance
	£	£	£	£
Code audit				
Financial statements	289,000	235,000	264,000	29,000
Use of resources audit to support the value for money conclusion	110,000	79,100	79,100	0
Code audit fee	399,000	314,100	343,100	29,000
Risk Based work financial statements	0	20,000	20,000	0
Risk Based work financial systems	0	10,000	10,000	0
Grants (estimated)	50,000	50,000	43,000	(7,000)
Grant claims report to those charged with governance	2,000	2,000	2,000	0
Total	£451,000	£396,100	£418,100	
Total Variance 2011/12				£22,000

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I will be pleased to answer any questions Members of the Audit Committee have about this matter.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'R Grant', with a stylized flourish at the end.

Robert Grant
Partner
PKF (UK) LLP

Copy
M Hayward, Chief Finance Officer