

AUDIT COMMITTEE

26 NOVEMBER 2013

ANNUAL AUDIT LETTER 2012/2013

Report from: Mick Hayward, Chief Finance Officer

Author: Mick Hayward, Chief Finance Officer

Summary

This report and attachment reflects the work carried out by BDO, our external auditors, in respect of the 2012/2013 financial year.

1. Budget and Policy Framework

1.1 The receipt of the Annual Audit Letter is a matter for the Audit Committee.

2. Annual Audit Letter 2012/2013

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 2012/2013, produced by BDO, is attached as Appendix 1 to this report. The letter summarises the key issues arising from the work BDO have carried out during the year ending 31 March 2013 and relates to their responsibilities in both finance and governance matters.

2.3 The letter was previously circulated to members of the Audit Committee on 28 October 2013 prior to publication on the Council's website and notification to the Audit Commission before the end of October 2013.

2.4 Set out below is an overview of the key findings contained within the 2012/2013 Annual Audit Letter:

2.4.1 Statement of Accounts

- An unqualified true and fair opinion was given on the financial statements for the year, which were properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
- BDO identified a number of non-material errors and inconsistencies that the Council corrected. The majority of these related to the fixed assets register.

- The late completion of the financial statements was noted; as was the deficiencies in the council's systems for adults social care panel authorisations, adults social care financial assessments and payroll authorisation records. Management will review the deficiencies and strengthen internal control.

2.4.2 Use of Resources (Value for Money)

- BDO 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.
- An unqualified value for money conclusion has been issued. This highlighted, by exception, that Ofsted had judged aspects of the Children's Services to be inadequate.

2.4.3 Other Matters

- BDO were satisfied that the Annual Governance Statement was not misleading or inconsistent with other information they were aware of from their audit.
- The audit of the Whole of Government Accounts return and the audit of grant claims and other Government returns was progressing and would be reported separately
- A local elector had exercised his right to object to the 2012/13 financial statements and the audit certificate could not be given until the outcome of the objection was determined.
- BDO's review of performance found the Council met or exceeded 44 out of 78 council plan targets and that performance needed to improve in others.

2.5 The key findings from BDO's work are explained in more detail within Appendix 1. It is noted that BDO's detailed findings and recommendations were also reported to the Audit Committee on 25 September 2013 within the Annual Governance Report.

3. Financial and Legal Implications

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

4. Risk Management

4.1 As the majority of the issues identified within the Audit Letter 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.

5. Recommendation

5.1 The Audit Committee note the content of the Annual Audit Letter for 2012/2013.

Background papers: None

Lead Officer Contact: Mick Hayward: Chief Finance Officer



MEDWAY COUNCIL

Annual Audit Letter 2012/13

October 2013

EXECUTIVE SUMMARY

Background

This Annual Audit Letter summarises the key issues arising from the work we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders and members of the public.

The Audit Commission will publish this letter on its website after 1 November 2013. The Council should also publish the letter on Medway Council's website.

Responsibilities of auditors and the Council

We are the Council's independent external auditors appointed by the Audit Commission, the body responsible for appointing auditors to local public bodies in England. As the 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 Statement of Accounts
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission and whether we have exercised our statutory powers under the Audit Commission Act 1998 on any matter.

Our audit of the Whole of Government Accounts return and the audit of grant claims and other Government returns are in progress and we will report the findings from this work separately. A local elector has exercised his rights to object to the 2012/13 financial statements and the audit certificate has not been finalised.

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

	STATEMENT OF ACCOUNTS
1	We gave an unqualified opinion on the Council's financial statements for the period ended 31 March 2013 on 30 September 2013. While our audit did not identify any individually material errors, we did find a high number of non-material errors and other inconsistencies the Council corrected. The Audit Committee has expressed its concern about the late completion of the audit and the delay in circulating the revised financial statements to them for approval.
	USE OF RESOURCES
2	We issued an unqualified value for money conclusion. We highlighted a significant matter by exception because an external regulator (Ofsted) judged aspects of Children's services to be inadequate. The Council will need to ensure the additional investment in those services identified for improvement is sustainable and that the required improvement in performance is secured.
	OTHER MATTERS
3	<p>We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).</p> <p>The delay in finalising the audit of the 2012/13 financial statements also delayed the completion of our audit of the final Whole of Government Accounts return. The Government's deadline for submitting the audited return was therefore not met. We received an objection to the financial statements and have written to the local elector with our provisional views.</p> <p>Our review of operational performance found the Council reported generally positive performance in the year (44 out of 78 council plan targets were achieved) and that performance needs to improve in other areas (22 out of 78 council plan performance indicators were significantly behind target).</p>

STATEMENT OF ACCOUNTS

1

OPINION

We gave an unqualified true and fair opinion on the financial statements on 30 September 2013.

Financial statements

The Council met the Government's deadlines for publishing the annual financial statements and we gave an unqualified opinion. The closing stages of the audit were challenging as the financial statements were updated to correct the errors identified by our review of revised versions. Additional resources were required to complete our audit and the Audit Committee has expressed its concern about the late completion of the audit and the delay in circulating the amended financial statements to Members for approval.

Almost all errors and inconsistencies found by our work involved the production of balances from the fixed asset register. We identified the operation of the register as a significant risk in planning our audit and undertook additional audit procedures accordingly. Significant issues we found involved errors in accounting for schools assets and that some of the Council's fixed asset policies were not consistently applied. A number of drafts of the financial statements were produced for our review before the Audit Committee received a final version and approved them on 27 September 2013.

The Council has agreed to implement our recommendation to ensure the closure of accounts timetable includes sufficient time to complete a critical review of fixed asset balances and associated capital accounting transactions.

Our detailed audit work found significant deficiencies in the Council's systems for:

- adult social care panel authorisations
- adult social care financial assessments and related checks of these assessments
- payroll authorisation records.

We completed additional audit procedures to gain assurance that the balances produced by these systems were materially correct. Management has agreed to review the deficiencies and strengthen internal controls. The Audit Committee should continue to oversee implementation of internal and external audit recommendations.

Internal controls

USE OF RESOURCES

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CONCLUSION

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. We issued an unqualified value for money conclusion on 30 September 2013, highlighting a significant matter by exception because an external regulator (Ofsted) judged aspects of Children's services to be inadequate.

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Financial resilience

The Council's financial governance arrangements enable strong leadership on financial matters through the work of the Cabinet and the Senior Management Team. The Council's financial performance and associated financial risks are consistently understood across the organisation through the quarterly reports reviewed (and published) by the Cabinet and the four Overview and Scrutiny Committees. Among officers, financial responsibilities are clearly assigned and the Senior Management Team oversees the corporate response to expenditure pressures and other financial risks emerging in the year, and the overall achievement of the annual budget. Financial risks are reported to the Cabinet and action required to address these risks is agreed and implementation monitored.

The Medium Term Financial Strategy indicates that the financial position is balanced for the 2013/14 period. Significant resource gaps have been identified in 2014/15 (£16 million) and in 2015/16 (cumulative £34 million). Further pressure is being placed on the Council's general and earmarked reserves. Ensuring financial balance over the medium term planning horizon will continue to require strong action by the Council

The budgeted gross expenditure for services in 2012/13 was £607 million. The Council planned to reduce its reserves by about £1.2 million to support the annual budget. In the event, the Council's effective financial management meant reserves increased by £1.7 million, providing additional flexibility in developing the 2013/14 budget and the Medium Term Financial Strategy (published for the period 2014 to 2017 in October 2013).

As at 31 March 2013, the Council decided to reduce the general fund balance from £10 million to £5 million. It transferred £5 million to a new earmarked reserve for the development of the South Medway area. The Chief Finance Officer has highlighted the risks involved in reducing the general fund balance should unforeseen circumstances arise.

However, other general earmarked reserves of £20.8 million are available as at 31 March 2013.

The balance on the Housing Revenue Account (HRA) has reduced significantly over the last two years from £6.1 million as at 31 March 2011 to £4.3 million as at 31 March 2013. A further reduction was made on 30 September 2013 when the Council decided to transfer £2 million from the balance to the general fund (earmarked reserves) to invest in new community hubs. The balance on the HRA is expected to be around £3 million by 31 March 2014.

The Council will need to keep the financial performance of the HRA under close review to ensure sufficient resources are available to invest in its long-term plans for additional homes and improving existing stock.

Challenging economy - efficiency - effectiveness

We issued an unqualified value for money conclusion. We highlighted a significant matter by exception in our conclusion because an external regulator (Ofsted) judged aspects of Children's services to be inadequate in the year. Our key findings were:

- the Council will need to ensure the additional investment in those services identified for improvement is sustainable and that the required improvement in performance is secured
- progress towards the Council's improvement plans for those Children's services judged by the external regulator to be inadequate will continue to require strong leadership and management action within the Council, and through the work of the Children's Improvement Board

- the Council will need to keep those primary schools identified by the external regulator as underperforming under close review and take appropriate action to improve performance
- further action may be required to ensure the achievement of pupils at 'Key Stage 2' meets the Council's targets and national benchmarks
- action has been taken to strengthen corporate procurement arrangements and savings from the 'Category Management' programme are in line with the Council's plans
- the Joint Health and Wellbeing Board was established with key strategic partners in line with the Government's timetable. The Board has continued to work towards the public health priorities the Council and its partners agreed for the Medway area
- the Council reported positive performance in many areas in 2012/13 and 44 out of 78 Council Plan key measures of success met or exceeded the published target in the year.

Children's Services

Reports by the external regulator

In January 2013, Ofsted carried out an unannounced inspection of the Council's services for the protection of children and concluded that the overall effectiveness of the service was inadequate (below minimum requirements). The review considered the effectiveness of the help and protection provided to children and young people, families and carers; the overall quality of practice; and the leadership and governance provided by the Council. Ofsted specified action the Council should implement immediately and over the next six months (commencing February 2013) and issued an improvement notice the Council responded to. The Council has established a Children's Improvement Board under the leadership of an independent Chairperson and involving senior management including the Chief Executive.

There is wide representation on the Board among strategic partners including schools, the local Clinical Commissioning Group and the Police Service. The Lead Member for Children's Services also attends and reports progress and outcomes to the Cabinet. The Council has prepared an improvement plan with measurable outcomes and milestones and has identified the additional resources needed to deliver it.

A further unannounced inspection of services for looked after children (LAC) was undertaken by Ofsted in July 2013. Ofsted reviewed the Council's capacity to improve LAC services; the outcomes for looked after children and young people; the quality of service provision and the Council's leadership and management. Overall, Ofsted considered the LAC service to be inadequate but did conclude the capacity of the service to improve was adequate. The Council is considering its response to the report.

The Audit Commission requires us to report by exception on any significant additional matter that comes to our attention and which we consider to be relevant to the establishment of proper arrangements to secure economy, efficiency and effectiveness in the use of resources. We considered the findings of the Ofsted inspections in January 2013 and July 2013 to be significant matters which we reported in our Value for Money conclusion.

OTHER MATTERS

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REPORT BY EXCEPTION

Our audit of the Whole of Government Accounts return will be completed after the Government's deadline.

Annual Governance Statement

We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).

Audit of grant claims and other returns

Our audit of grant claims and other government returns remains in progress for the period ended 31 March 2013. In February 2013, we reported the outcome of our audit of such claims and returns for the period ended 31 March 2012. The overall value of claims and returns submitted to audit as at 31 March 2012 was £212 million. The housing and council tax benefit subsidy claim was amended to correct errors affecting the four types of benefit administered by the Council. The overall impact was a reduction in subsidy of £44,000. Where we were unable to carry out additional audit procedures to fully quantify errors identified, we included the facts in a qualification letter to the Government department.

No significant issues arose from our audit of other claims and returns in 2011/12.

Whole of Government Accounts

The delay in completing the audit of the 2012/13 financial statements also delayed the completion of our audit of the final Whole of Government Accounts return. The Government's deadline for submitting the audited return to the Department for Communities and Local Government by 4 October 2013 was therefore not met.

Objection to the 2012/13 financial statements

A local elector has exercised his rights to object to the 2012/13 financial statements. The audit certificate cannot be given until the outcome of the objection is determined.

OTHER MATTERS

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OPERATIONAL PERFORMANCE

Our review of operational performance found the Council met or exceeded 44 out of 78 council plan targets. Performance was significantly behind the Council's plans for 22 of the targets.

INTRODUCTION

Medway's approach to performance management and review has continued to develop over the last 12 months. The Council now reports performance compared to other, similar local authorities across 12 of its key measures of success and for other performance indicators where data is available (for customer satisfaction for instance)

Progress towards Medway's priorities was generally positive in the year, though the performance of aspects of Children's services and educational achievement at Key Stage 2 continue to require close attention.

In summary, the Council reported positive performance in that:

- 44 out of 78 Council Plan Key measures of success were on target or exceeded their target.
- 34 out of 62 of Council Plan key measures of success improved compared to the previous year.
- 81 per cent of customers were satisfied overall with the way Medway runs its services compared with 79 per cent in 2011/12
- 71 per cent of people were satisfied overall with their contact with Medway Council
- customer satisfaction on web contact was independently judged to be top quartile (out of 90 local authorities)
- nine out of 14 of the 'delivering fair and responsive' performance measures were on target
- 79.6 per cent of complaints were dealt with within 10 working days.

However, the Council also reported 22 out of 78 Council Plan performances indicators were significantly behind target and that 24 out of 62 Council Plan key measures of success decreased in performance compared to the prior year.

A summary of performance in the year towards the Council's corporate plan themes and (where available) to 30 June 2013, is provided below.

Adults maintaining their independence and living healthy lives

Six out of the 14 targets underpinning the Council's priority for adults maintaining their independence and living healthy lives were not met, including the satisfaction with services for older people (61.4 per cent satisfied compared to target 63.5 per cent) and services for carers (44 per cent satisfied compared to target 60 per cent). The number of carers receiving a needs assessment was also behind target (10.5 per cent received a needs assessment compared to the target of 20 per cent). Positively, the Council continues to exceed its targets for minimising delays in discharging patients from NHS care where social care is required. Performance in delaying patient discharges (17.4 days) compares well to the average among statistical neighbours (average 27.4 days) and other Unitary Authorities (average 39 days).

Children and young people in Medway having the best start in life

As at 31 March 2013, 11 out of 35 performance indicators for the Council's priority for children and young people in Medway having the best start in life were significantly behind target. Targets for the percentage of initial children's social care assessments completed within 10 working days and within 35 working days were not met, nor were the Council's targets for the review of looked after children's cases; the average time for children entering care and moving in with an adoptive family and for children's participation in child protection conferences, as shown below.

Performance Indicator 2012/13	Target	2012/13 Actual	30 June 2013
Percentage of core assessments for children's social care that were carried out within 10 working days of their commencement	78%	71.8%	Not Available
Percentage of core assessments for children's social care that were carried out within 35 working days of their commencement	72%	55.8%	Not Available
Looked after children cases which were reviewed within required timescales	95%	87.5%	97%
Children's participation in child protection conferences	80%	51.25%	Not Available
Average time between a child entering care and moving in with adoptive family	526 days	660 days	705 days

Where benchmarking information is available, the Council performs well for the percentage of pupils achieving five or more A* to C grades at GCSE or equivalent including English and Maths (61.2 per cent) when compared to statistical neighbours (58.6 per cent) and other unitary authorities (58 per cent). The percentage of pupils with statements of special educational needs achieving five or more A*-C GCSEs including English and Maths (14.3 per cent) compares well compared to statistical neighbours (8.9 per cent) and other unitary authorities (7.7 per cent).

The Council also met or exceeded its targets for agreeing child protection plans (CPPs) lasting two or more years; and reducing the percentage of children becoming subject to a second or subsequent CPP within two years. Targets for narrowing the achievement gap for early years foundation stage and the number of special education needs pupils achieving five A* - C GCSEs in English and Maths were also met. The percentage of looked after children cases which were reviewed within required timescales improved as at 30 June 2013. The performance for these targets is summarised below.

Performance Indicator 2012/13	Target	2012/13 Actual	30 June 2013
Child Protection Plans lasting two years or more	8%	7.1%	6.8%
Percentage of children becoming the subject of a child protection plan for a second or subsequent time within two years	9%	4.8%	4.8%
Narrowing the gap between the lowest achieving 20% in the Early Years Foundation Stage Profile and the rest	30%	31.5%	Not Available
Looked after children achieving five A*-C GCSEs (or equivalent) at Key Stage 4 (including English and mathematics)	16%	15%	Not Available

The percentage of pupils achieving level four or above in both English and Maths at Key Stage 2 (72 per cent) remains behind Medway's statistical neighbours (80 per cent) and other Unitary Authorities (78 per cent).

Everyone travelling easily around Medway

The Council's performance towards its targets for everyone travelling easily around Medway were generally met, with average journey times across six specified routes being completed ahead of target and 55 per cent of people believing Medway helps people travel easily around the area compared with 53 per cent in 2011/12.

Everyone benefits from the area's regeneration

Four of the Council's 15 performance indicators for ensuring everyone benefits from the area's regeneration were significantly behind target as at 31 March 2013, some improvement is evident as at 30 June 2013 for two indicators, as summarised below.

Performance Indicator 2012/13	Target	2012/13 Actual	30 June 2013
Average length of stay in B&B accommodation of households with dependent children or pregnant woman (weeks)	2 weeks	2.32 weeks	2.53 weeks
16 to 18 year olds who are not in education, employment or training (NEET)	6%	6.6%	Not Available
Care leavers in education, employment or training	60%	53.6%	53.3%
Number of jobs created and safeguarded through intensive assists	100	275	143

Positively, the Council met its target for delivering affordable homes, with 229 affordable homes delivered in 2012/13 which was ahead of the target of 204 homes. Medway compares well to its statistical near neighbours (average 196 homes) and other Unitary Authorities (average 208 homes). The number of households living in temporary accommodation as at 31 March 2013 was 120 households and compared favourably to the target of 135 homes. However, performance has deteriorated slightly as at 30 June 2013 when 128 households were reported to be living in temporary accommodation.

Safer and cleaner Medway

Almost all of the Council's 26 targets for a safer and cleaner Medway were met. Notably, more people are satisfied with the Council's trading standards and environmental services than the previous year. Fewer cases of domestic violence were reported in the year. More people are satisfied with recycling services with residual household waste amounts reducing. All of the Council's targets for maintain the cleanliness of Medway's streets were met and as at 30 June 2013, 74 per cent of people were satisfied with the street cleaning service compared to the target of 75 per cent.

APPENDIX


Reports issued

We issued the following reports in respect of the 2012/13 financial year.

REPORT	DATE
Planning letter	December 2012
Audit Plan	March 2013
Annual Governance Report to Audit Committee	September 2013
Annual Audit Letter	October 2013

Fees update

We reported our fee proposals in our Audit Plan issued in March 2013. The Audit Commission's scale fee amounts to £188,640 for the year. We are currently discussing with management the impact on resources and fees of the additional work required to complete the audit of the 2012/13 financial statements. The audit fee is therefore likely to increase. We will update the Audit Committee when this process is completed.



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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