

Annual Audit Letter

Nottinghamshire County Council

Audit 2010/11



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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 unqualified audit opinions on the County Council and Pension Fund accounts.

- The accounts were presented on time and complied with the requirements of the newly introduced International Financial Reporting Standards.
- The accounts were free from material error.
- I did not identify any significant weaknesses in your internal control arrangements.

Value for money

Proper arrangements are in place to secure value for money.

- The financial governance arrangements are well established and supported by a strong financial management culture. The steps taken to preserve the Council's financial standing have been effective.
- The Improvement Programme is widely understood and comprehensive. The Programme governance arrangements are strong and good progress is being made. The Council has improved its understanding and control of its costs and is delivering efficiency savings.

Current and future challenges

The state of the economy, cuts in government funding and increasing demands in priority services continue to put severe pressure on the Council and its finances. The Council took many important actions in 2010/11 that have enabled it to prepare for current and future challenges. The Council has restructured its management and made significant savings in pay and non-pay spending. The Council is investing in new systems and processes to strengthen financial management, the arrangements for managing the Improvement Programme have been established and capital spending and financing reviewed.

The Council set a balanced budget for 2011/12 and midway through the year a net year-end underspend of £3.3 million was forecast. The main areas of overspend are consistent with cost pressures faced by most other county councils and include increased costs of Looked after Children and higher street lighting energy costs. The Council was making good progress in achieving its 2011/12 savings target of £76.3 million, with 93 per cent of the target either achieved by the mid-year point or likely to be delivered by the year-end. The Council has made significant progress with the major elements within the Improvement Programme.

The medium term outlook however remains challenging for the Council. The initial 2012/13 to 2015/16 budget report sets out a realistic assessment of the Council's financial standing, the difficulties faced and the steps required to mitigate the financial risks identified. Budget pressures (particularly in Children and Young People services and Adult Social Care) have increased from £37 million to £62.4 million over the period of the plan. Additional corporate and departmental savings proposals and other actions have been identified for the first two years of the plan, with a balanced budget expected for 2012/13. The Council faces though a cumulative gap to 2015/16 of around £95.3 million because of grant cuts and expected cost pressures in priority services.

As reported in my VFM conclusion, the Council's arrangements for preparing and managing its budgets have been effective and it has delivered savings through redesigning and transforming services. The Council needs to continue to improve these arrangements if it is to respond effectively to the severe financial difficulties faced. There are a number of significant projects underway to secure savings and to strengthen the Council's financial management arrangements, to enable it to maintain priority services. Members should continue to monitor progress against its Improvement Programme and financial plan, and ensure the focus on improving efficiency and sound financial management is maintained.

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 unqualified opinions on the County Council and the Pension Fund 2010/11 accounts on 29 September 2011.

The closedown arrangements for producing the financial statements continue to work well. The accounts were presented for audit before the required statutory date of 30 June 2011. The statements complied with the International Financial Reporting Standards' requirements and were free from material error. A small number of disclosure notes in the financial statements were amended and three unadjusted errors that were not material either individually or collectively were reported to members.

I certified the annual Whole of Government Accounts (WGA) return by the 30 September 2011 deadline.

The 2010/11 audit could not be formally closed because of two continuing issues regarding objections to the 2008/09 and 2009/10 accounts. The 2010/11 audit certificate cannot be issued until both of these issues have been resolved and that year's audit has been closed. I was satisfied that these matters did not have a material impact on the 2010/11 financial statements.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and 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	Key messages
<p>1. 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 financial governance arrangements are well established and supported by a strong financial management culture. The medium term financial strategy has been informed by widespread consultation and analysis over recent years and it shapes the Improvement Programme to deliver significant financial savings over the period of the plan. The budget is comprehensive and service plans reflect the Council's priorities. The steps taken to maintain the Council's financial standing have been effective and action has been taken quickly in year to address any reported overspends. The Council underspent overall in 2010/11 and increased balances by £3.3 million. The Council is investing in new systems and processes to improve financial monitoring and internal reporting. The Council has set challenging targets for budget reductions and is making good progress on its programmes to deliver them. The financial reporting arrangements are well established and new accounting requirements have been successfully addressed in the year. The Council continues to manage risk effectively and the arrangements are embedded. Internal Audit found that internal controls in most of the Council's systems and procedures continue to operate satisfactorily.</p>

Criterion

2. Securing economy efficiency and effectiveness

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.

Key messages

The Improvement Programme is widely understood and comprehensive. The Improvement Programme governance arrangements are strong and good progress is being made in delivering the Programme. The Programme incorporates a high degree of challenge to service delivery (for example the Trading Services review) and opportunities for service redesign. The Programme has been informed by good analysis of budget pressures and the impacts of increasing demand. Significant savings have also been achieved in year through enforcing basic controls on non-essential spending. A key strand of the Programme is the implementation of a new system to strengthen the arrangements for managing information about cost and performance. There has been significant investment in this Business Management System and the officers are working hard to ensure its successful implementation in 2011/12. Comparative and benchmarking information is being more widely used. The Council has improved its understanding and control of its costs and is delivering efficiency savings.

Closing remarks

Continuing independent support

During the year we have continued to support the Council by:

- attendance at Audit Committees to inform Members about progress on the audit and report our key findings; and
- hosting our annual final accounts workshops which are attended by accountancy staff.

Summary

I will present this letter at the Audit Committee on 30 November 2011 and will provide copies to all Councillors. 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
Audit fee letter	April 2010
Audit opinion plans	March 2011
Annual governance reports	September 2011
Audit opinions on the financial statements and value for money conclusion	September 2011
Annual audit letter	November 2011

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

Ian Sadd

District Auditor

November 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Audit fee	£242,500	£242,500	£0
Inspection Fee	£0	£16,630	-£16,630*
Non-audit work	£0	£0	£0
Nottinghamshire County Council Total	£242,500	£259,130	-£16,630*
Audit Fee	£49,500	£49,500	£0
Non-audit work	£0	£0	£0
Pension Fund Total	£49,500	£49,500	£0

*The planned inspection fee was not charged as a result of the government's decision to abolish Comprehensive Area Assessment in May 2010.

In July 2009, in recognition of the financial pressures that public bodies are facing, the Commission confirmed that it would give a "one-off" subsidy to cover the additional cost of transition to IFRS for local authorities in 2010/11 only. A refund of £16,794 against the above audit fee was issued in April 2010. The Audit Commission issued a further rebate of 1.5 per cent of the scale fee (£4,163) in December 2010.

The fee for certification of claims and returns is charged at published daily rates. The work is ongoing and our latest estimate is that the fee will be in the region of £8,000 (£5,776 in 2009/10).

Appendix 2 - 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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