

Annual Audit Letter

Cherwell District Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit of the financial statements (page 3) and my assessment of the arrangements to achieve value for money in its use of resources (pages 4 to 5).

Audit opinion and financial statements

1 I issued an audit report including an unqualified opinion on the financial statements on 22 September 2010. There were only minor presentational errors in the statements adopted.

2 I reported to those charged with governance (in this case, the Accounts, Audit and Risk Committee) on the issues arising from the 2009/10 audit.

Value for money

3 I gave an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources when I gave my opinion on the financial statements.

Current and future challenges

4 The Council faces some major challenges. These include responding to the government's Spending Review which requires every council across the country to make large financial savings. The Council has been anticipating this. It has made plans to make significant savings through its Medium Term Plan and Financial Strategy and is working in partnership with other local public bodies.

5 Like other local government authorities, the Council must prepare financial statements for 2010/11 based on International Financial Reporting Standards (IFRS). It has a project plan for putting IFRS in place. This is on track to meet all the statutory deadlines for financial reporting in 2010/11.

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

6 I issued an audit report including an unqualified opinion on the financial statements on 22 September 2010. The accounts and working papers presented were of a good standard and officers responded well and in a timely way to our audit queries.

Significant weaknesses in internal control

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

Icelandic investments

8 The Council has £6.5 million invested in three deposits with the Icelandic bank Glitnir. It had invested the money during 2006 and 2007 in line with its treasury management policy before any warnings about Icelandic banks.

9 During 2009/10, the Winding-Up Board of Glitnir Bank decided that local authority depositors would not be granted preferential creditor (priority) status. Local authorities are challenging the decision by the Winding-Up Board through the Icelandic courts. All three of Cherwell District Council's deposits have been selected as test cases. If local authority deposits are awarded priority status, claims will be fully repaid. If local authority deposits do not get priority status, the Council will receive much less of its investment back. In addition the Council has also put in a request to capitalise any loss.

10 No payment is expected before the court cases and any appeals for priority status. The earliest likely date by which payment could be made is June 2011.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed its performance against the criteria specified by the Audit Commission and reported the outcome as the value for money conclusion.

2009/10 use of resources assessments

11 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

12 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

13 I report the findings from the work I have carried out to support the value for money conclusion.

Value for money conclusion

14 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the value for money conclusion at each type of audited body.

15 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Workforce	Yes

16 I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Approach to local value for money work from 2010/11

17 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money audit work. The Commission aims to introduce a new, more targeted and better value approach to our local value for money audit work.

18 I will base my work on fewer reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

19 I will determine a local programme of value for money audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer provide an annual scored judgement for my local value for money audit work. Instead I will report the results of all this work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Spending review and economic downturn

20 The Council faces some major challenges. The new coalition government announced details of its spending plans for the next few years on 20 October 2010. It requires every council across the country to make big financial savings.

21 It will be important in this time of major change for the Council to consider and respond to the following issues:

- the resilience of medium-term financial strategies and the capacity to deliver significant efficiency savings;
- the need to keep enough management capacity to influence and respond to changes in patterns of demand for services; and
- the need to preserve proper standards of governance through changes in the way services are provided.

22 The Council has been anticipating the spending review for some time. It has made plans to make significant savings through its Medium Term Plan and Financial Strategy. This includes a review of all services in conjunction with the Council's latest public consultation and residents priorities.

23 The Council is working in partnership with other public bodies. The Council's Executive has recommended a shared management team between Cherwell and South Northamptonshire Council to help deliver these savings. The Council has estimated that this would give annual savings of around £0.7 million and cumulative five year savings of £3.4 million. The Council estimates the one off implementation costs at between £0.8 million and £1.7 million, with Cherwell responsible for 60 per cent. These are Council estimates of the potential savings implementation costs: we have not audited the figures.

International Financial Reporting Standards

24 Like other local authorities, the Council must prepare financial statements based on International Financial Reporting Standards (IFRS) for 2010/11. The transition to IFRS is challenging. The financial impact will vary widely from one body to another but the broader implications are wide-reaching. IFRS is not just a technical accounting issue for the finance team as there are wider process and systems changes to consider across the organisation. Significant preparatory work is essential.

The Council has recognised the challenges posed by IFRS. The Council has project plan for putting IFRS in place. This is on track to meet the deadlines for financial reporting in 2010/11. In addition the Accounts, Audit and Risk Committee has been kept informed of the impact of changes on the financial statements and how they are being addressed.

Closing remarks

25 I have discussed and agreed this letter with the Chief Executive, Chief Finance Officer and the Head of Finance. I will present this letter at the next Accounts, Audit and Risk Committee and will provide copies to all members.

26 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit plan	April 2009
Opinion plan	June 2010
Annual governance report	September 2010
Opinion	September 2010
Value for money conclusion	September 2010
Annual audit letter	November 2010

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

Maria Grindley
District Auditor

25 November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£74,500	£74,500	--
Value for money	£45,500	£45,500	--
Total audit fees	£120,000	£120,000	--

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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

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