

Annual Audit Letter

**Essex County Council and Essex County Pension
Fund**

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. My audit comprises two elements:

- **the audit of your financial statements (pages 5 to 6); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 7 to 12).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified audit opinion on 30 September 2010, which was the statutory deadline. Before giving my opinion, I reported to the Audit Committee on the issues arising from the 2009/10 audit on 27 September 2010.

2 Although I was able to issue an unqualified opinion by the deadline, my team and I completed a significant amount of extra work to achieve this. The Council needed to make several amendments to the accounts.

3 The Council improved the quality of the working papers in support of the entries in the accounts this year but there is still scope for improvement in some areas.

4 The Council will prepare the 2010/11 accounts entirely based on International Financial Reporting Standards (IFRS) for the first time. To meet the new requirements the Council will need to do a lot of work, including restating the 2009/10 accounts. The Council has a plan to deliver this work but has missed key target dates for the preparation work and is aware that progress against this plan will need to improve.

Value for money

5 I issued a qualified value for money conclusion on 30 September stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources except in relation to your governance arrangements.

6 Essex County Council has good arrangements in place for finance and use of natural and human resources but 2009/10 was a challenging year for the Council's governance arrangements. The Council has an action plan in place to address the weaknesses identified and the Council's Corporate Governance Group will oversee its implementation.

Audit fees

7 I increased my audit fee for the Council, excluding The Pension Fund, by £41,000 to £445,380. The main reason for the increase was that there were significant issues with the final accounts and because of increased audit work related to the introduction of new accounting requirements because of International Financial Reporting Standards.

Current and future challenges

8 OFSTED assessed the Council's arrangements for safeguarding children as inadequate in 2008. A further assessment in 2010 issued the same assessment but recognised the Council had made significant improvements. The Council continues to work in partnership with many other organisations to address the weaknesses identified and ensure that its own resources are directed at this high priority area. I will monitor the progress made by the Council.

9 The Council, like most public sector organisations, is facing significant financial pressures in 2010/11 and future years. Costs continue to increase rapidly reflecting a rising elderly population, an increase in the rate of landfill tax on waste and increasing requirements for child protection. In addition the Council has been affected by the fall in interest rates which has resulted in a decrease in investment income.

10 The slowdown in the economy has resulted in a slower than expected increase in the number of new households which has meant that council tax income is lower than expected.

11 The Council has a sound record on financial management and has identified areas where savings can be made. However the challenges the Council is now facing because of the general economic downturn and Comprehensive Spending Review (CSR) are unprecedented.

12 When the Council set its 2010/11 budget, the Chief Financial Officer confirmed there was sufficient robustness within the Council's estimates and the level of reserves were adequate.

13 At the half year stage the Council is projecting a revenue overspend of £8.474 million. Capital expenditure is projected to underspend by £25.092 million against approved capital payments. The Council has increased the revenue budget for Children's Services through a transfer from an earmarked reserve of £3.929 million but in addition the management of the service is taking action to recover a further £3.266 million overspend.

14 The Council will complete a more accurate assessment of the impact of the CSR once the Council's financial settlement is announced in December 2010. I will review the Council's detailed response to the settlement once the information is available.

Essex County Pension Fund

15 The Pension Fund accounts and working papers continued to be of good quality and officers dealt with audit queries promptly and appropriately. There were no significant amendments needed to the accounts but I did report PN11 forms received from the contributing bodies should be signed by a Senior Financial Officer (for example the S151 Officer, Director for Finance or Finance Manager).

16 The planned audit fee for the Pension Fund was £70,650 but I reduced it to £56,920 because of a refined audit approach, effective controls and good quality supporting working papers.

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.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010, the statutory deadline.

Overall conclusion from the audit

17 The Council approved the financial statements on 28 June 2010. Following my audit the Council made several significant amendments, the majority related to fixed assets. The Council introduced a new fixed asset register in 2009/10 and there were several errors and delays in producing the information for the accounts.

18 The Council included assets on the balance sheet funded through the Private Finance Initiative (PFI) and Service Concessions in 2009/10 for the first time. This was in response to the new requirements arising from the early adoption of one aspect of International Financial Reporting Standards. There were several technical issues to resolve because of this change and several significant amendments required following completion of my audit.

19 Initially the Council did not include the unfunded pension liability in respect of discretionary benefits paid to teachers in the financial statements. This was corrected following a request for a valuation of the liability from the Council's Actuary.

Significant weaknesses in internal control

20 My interim audit identified some weaknesses in the design or operation of an internal control that might result in a material error in the Council's financial statements:

- the Council has taken steps to address the risk of significant errors on journals but the risk remained for most of 2009/10. For most of the year officers were able to input journals without the need for a second officer to authorise the entry and there was no retrospective risk-based review of journals;

- the Council is not assessing care packages in place for Adult Social Care clients annually. There are insufficient compensating controls in place to confirm the liability to pay for the care still exists and the amount being paid is correct; and
- invoices processed through the Council's 'non market place' system were not being approved in line with the new Scheme of Delegation database.

21 The Council's Annual Governance Statement, which is included in the published financial statements, was more detailed in 2009/10 than previous years but there is still scope to consider the balance between highlighting the positive progress made during the year alongside more detail on areas of weakness that remain.

Recommendation

R1 Review the errors on fixed assets, determine the causes and address them prior to producing the 2010/11 financial statements.

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.

2009/10 use of resources assessments

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

23 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.

24 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

25 I assessed the Council's arrangements to achieve economy, efficiency and effectiveness in the 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 VFM conclusion at each type of audited body.

26 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	No
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Strategic asset management	Yes
Workforce	Yes

27 I issued a qualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources except for good governance.

28 The Council has good arrangements in place for finance and use of natural and human resources but 2009/10 was a challenging year for governance arrangements.

29 There is an action plan in place to address governance issues and the Council's Corporate Governance Group will oversee its implementation.

30 Essex County Council has a good financial standing record. 2009/10 presented financial pressures as resources were directed to performance issues in Schools Children and Families. The 2010/11 budget has risks attached and very challenging targets to meet but these have been communicated to members explicitly.

31 The Council is focused on costs and continues to progress its transformation programme to save significant sums and re-invest where possible in front line services.

32 Financial reporting is clear although year end projections did worsen during the year. The Council has worked hard to address the issues that caused the 2008/09 accounts to be materially misstated but I identified significant errors with fixed assets again 2009/10 which the Council corrected.

33 The Council has a clear purpose and vision supported by The Essex Strategy 2008 to 2018. Resources are aligned to priorities. Procurement arrangements continue to be strong, data quality is improving and internal control issues are being addressed.

34 The Council has demonstrated effective arrangements for the management of resources. Asset management continues to be cost focussed and continually looking for opportunities to improve value for money. The Council takes a leadership role on asset management with partner organisations which is beneficial to all.

35 The review of workforce management has found strong arrangements in place across the Council. The Human Resources strategy is integrated into overall Council strategy, performance management is strong, leadership development programmes are in place, the wider skills needed in the economy have been considered, Human Resources input to organisational change is pro active and progress on diversity is good.

36 Governance arrangements need to improve because the Council did not publish key Committee papers in advance of meetings in accordance with the required timescale on a number of occasions and there were only four Cabinet meetings held in 2009/10. The Council did not promote the ethical agenda proactively. The Council's Corporate Governance Group will oversee the implementation of the action plan to address the governance issues highlighted.

Risk-based performance reviews

37 To support my review of the criteria I undertook the following studies.

- IT Business Continuity.
- Transformation Programme.
- Internal Performance Management and Performance Management of Partnerships.
- Building Schools for the Future.
- Health Inequalities.
- Ethical Governance (early 2010/11).

38 I have reported my detailed findings to the Council in separate reports.

IT Business Continuity

39 There were some significant weaknesses and gaps in disaster recovery plans for IT in 2009/10. In the event of a serious IT failure, this poses a threat to delivery of most Council services. These weaknesses are partly compensated for by a robust approach to corporate and service continuity planning.

40 The main issues were:

- there are serious outstanding weaknesses from the old outsourcing contract still to be resolved; and
- there are only limited business continuity arrangements in place under the new outsourced service for hosting servers, and there is a lack of clarity over those arrangements that are in place.

41 Information Services (IS) staff are aware of these issues. The Council has been addressing them by implementing an IT stabilisation plan, which it commenced soon after it took the services back in house in August 2009. The Council has also implemented significant improvements to disaster recovery arrangements for three of the Council's most critical line of business applications. The Council successfully managed both the migration in house service provision and the migration of servers to a new external contractor without any interruption to service provision. This has avoided the need to invoke business continuity arrangements.

42 It is a cause for concern that Essex commenced its service with a new contractor without fully clarifying contractual arrangements for business continuity. At the time the service commenced it had no written assurance about any business continuity arrangements for a major data service centre providing a significant service to the Council. The Council commissioned the new service under time pressure due to the imminent expiry of the contract with the previous provider in early February 2010.

43 This raises concern over the degree of due diligence that the Council exercised, and the robustness of the contractual arrangements for the data centre service. This lack of assurance is similar to the position with the previous provider and the Council has informed us that its objective was to establish a 'like for like' service.

Transformation Programme

44 This programme sets out to help the Council to transform itself so that it can improve customer services, especially to the most vulnerable people whilst coping with budget pressures. The Council has identified a budget gap rising to over £300 million in 2013/14.

45 The Council has made significant progress in developing an innovative approach to delivering the transformation programme. It is working with partners to look at how services can be delivered in a different way across Essex. There is clear and effective leadership, with staff and councillors well informed and engaged as they recognise the need for efficiency savings and service improvements.

46 However, there are some significant risks in delivering challenging efficiency targets in an uncertain and changing economic climate. Although recognising the need for efficiency savings and increased partnership working across Essex, some partners and staff are at times sceptical of the motivation and of the deliverability of the savings identified in the programme.

Internal Performance Management and Performance Management of Partnerships

47 The Council has made significant progress in improving its approach to performance management. Arrangements for monitoring and managing performance internally are well known and used as a driver for performance improvement, such as in Children's Services. Performance management of partnership delivery has also improved, supporting challenging shared objectives. However, there is mixed confidence by some partners of the information they receive or how some partners use the information to challenge joint service delivery.

48 Performance management arrangements have been strengthened although a consistent approach across the County Council has yet to be put in place. Some parts of the organisation have a strong performance management culture and are aware of costs and performance linkages. Other areas are less advanced and the Council's performance team are working towards a consistent approach to performance management.

Building Schools For The Future

49 The Council is effective in its engagement with stakeholders; planning for improved teaching and learning and planning for falling school numbers. No major value for money issues have arisen in these areas of consideration.

Health Inequalities (follow up to previous review)

50 Essex public sector organisations have made good overall progress against our recommendations, particularly in consolidating strategic approaches to deal with health inequalities, working together to develop operational arrangements to deliver the strategies and improving member awareness. Some issues require further attention, particularly in delivery, target setting and local performance monitoring.

Ethical Governance

51 I have completed a review of ethical governance arrangements at the Council and reported my initial findings back to some officers and members in the Council. There are a number of significant issues that need to be addressed and the Council is aware of these and taking positive action through its Corporate Governance Action Plan. I will be monitoring the progress achieved against this plan and will be following up the issues in more detail in 2011.

Recommendations

- R2** Ensure that the governance arrangements at the Council continue to improve and that the ongoing improvements implemented through the Corporate Governance Group Action Plan secure a change of culture in the Council.
- R3** Address the outstanding risks to IS business continuity by completing the implementation of the Council's action plan.
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Approach to local value for money work from 2010/11

52 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 (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

53 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

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

54 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit 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

Safeguarding Children

55 The Council's arrangements for safeguarding children were assessed as inadequate in 2008. A further assessment in 2010 issued the same assessment but recognised that significant improvements had been made. The Council continues to work in partnership with many other organisations to address the weaknesses identified and ensure that its own resources are directed at this high priority area. I will monitor the progress made by the Council.

Governance Arrangements

56 The Council is actively addressing the weaknesses with governance arrangements identified by internal and external audit in 2009/10. I will continue to monitor the improvements made and follow up my assessment of the arrangements in place.

Business Continuity

57 The Council's IT arrangements have been subject to a period of rapid change, both internally and with external contractor arrangements. I assessed the business continuity risks associated with these systems in 2009/10 and identified areas of weaknesses that needed to be addressed. The Council will continue to rely heavily on IT systems and business continuity risk management of these systems will be assessed again in 2010/11.

Future developments

58 The government is rapidly expanding the Academy Schools Programme. This has significant implications for the Council in terms of funding, potential changes to service delivery and accounting arrangements.

59 Demands on social care continue to increase and the choices available to those in need are expanding through the use of direct payments. The Council recognises the risks in terms of internal control and service delivery arrangements.

Closing remarks

60 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 13 December 2010 and will provide copies to all members.

61 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
Building Schools for the Future	June 2010
IT Business Continuity	April 2010
Annual Governance Report	September 2010
Internal Performance Management and Performance Management of Partnerships	September 2010
Health Inequalities	September 2010
Control and Systems Report	October 2010
Transformation Programme	October 2010
Final Accounts Memorandum	November 2010

62 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.

Rob Murray
District Auditor

November 2010

Appendix 1 Audit fees

Essex County Council

	Actual	Proposed	Variance
Financial statements and annual governance statement	252,500	293,500	41,000
Value for money	151,880	151,880	0
Total	404,380	445,380	41,000

The increase in audit fee relates to additional work required as a result of errors in the financial statements which were corrected and other related matters.

Essex County Pension Fund

	Actual	Proposed	Variance
Financial statements and annual governance statement	70,650	56,920	-13,730

The decrease in audit fee is due to a refined audit approach, effective controls and good quality supporting working papers.

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.

Journals

The method used to move money between account codes.

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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