

Annual governance report

Cannock Chase District Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

I have substantially completed my audit work and subject to clearance of outstanding issues anticipate issuing an unqualified opinion on your financial statements.

I am pleased to report that there has been continuing improvement in the production of your financial statements and in the working papers produced to support them. The development of the shared services finance team helped to accelerate this process through increased capacity and enhanced technical expertise. Your arrangements for preparing the financial statements were significantly strengthened and the support provided to external audit has ensured an efficient year end audit process. You have recognised that as the combined team has only been in place since May 2012 that there are still improvements that can be made and I am confident you have good foundations to deliver these from. This is a considerable achievement given that during the year the finance team were also heavily involved in significant projects for the Council such as the HRA self financing and Leisure outsourcing.

Value for money (VFM)

I am required to satisfy myself that the Council has made proper arrangements for securing value for money. For 2011/12 the Audit Commission determined two criteria for me to consider:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

On the basis of my work I am satisfied that in all significant respects Cannock Chase District Council put in place proper arrangements to secure value for money in its use of resources for the year ending 31 March 2012.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence.

I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 1: **Threats and safeguards**

| Threat | Safeguard |
|--|---|
| A member of the audit team has declared a friendship with the wife of your Monitoring Officer. We have discussed this with your Chief Executive and S151 Officer and they have confirmed that they are aware of this and are content that this does not present a significant issue. | We have planned our allocation of work to ensure that the team member has no contact with the Monitoring Officer and their work will not involve the review of any areas where the Monitoring Officer has been directly involved. This reduces any potential threat to an acceptably low level. |

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report; and
- approve the letter of representation (appendix 2 on behalf of the Council before I issue my opinion and conclusion).

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Significant risks and my findings

I reported to you in my March Audit Plan the significant risks that I had identified at that time as being relevant to my audit of your financial statements. In the table below I report to you my findings against each of these risks.

Table 2: **Risks and findings**

| Risk | Finding |
|---|--|
| <p>Heritage Assets – the 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. The Council has already started to identify any assets captured by this definition. However the valuation of these may be more difficult.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture</p> | <p>You performed appropriate investigations and procedures to satisfy me that you have correctly recognised, valued and disclosed heritage assets in your financial statements. My testing has not identified any significant issues to bring to your attention.</p> |

Risk

Shared services

The Council is progressing the sharing of services with Stafford Borough Council. The risks are around the disclosure of this arrangement in the financial statements and also the impact of the delivery of services on the VFM conclusion.

Outsourcing of the Leisure service – The Council is outsourcing all Leisure services to Wigan Leisure & Culture Trust (WLCT) from February 2012. The change in service delivery and the establishing of a relationship with a service organisation presents a risk for the Council which it has looked to mitigate through the contract and procurement process.

Housing self-financing – The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to or from central government on or before 28 March 2012. This will adjust the HRA debt of the Council. Payments from government will in most cases be used to redeem an equal percentage of all PWLB debt held by the Council. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.

Finding

The Council has successfully progressed the shared service arrangements. I am satisfied that appropriate arrangements are in place for the accurate recording of income and expenditure on each shared service and that you have provided adequate disclosure within your financial statements.

The levels of service provided by the finance department have continued to be developed throughout the transition period, which included new management structures and working methodologies. This is evidenced by the strong set of financial statements and working papers that have been provided.

We have considered the impact on the delivery of services in the VFM conclusion.

The Council did not outsource its Leisure Services until April 2012. The risks in respect of the 2011/12 financial statements did not therefore materialise. Whilst there are currently no indications that the contract is not operating as planned this remains a risk that we would propose to address in 2012/13.

The Council's self-financing HRA Business Plan was accepted by Government. This resulted in the Council making a one-off settlement payment to central government of £59.245 million. This was borrowed from the PWLB over a 50 year period at a rate of 3.48%. These figures are included within the financial statements and my testing has not identified any significant issues to bring to your attention.

As noted above, in order to implement housing self-financing the Council agreed a 30 year HRA Business Plan. It was based on the Council's self-financing determinations in respect of the settlement payment and borrowing cap. The Business Plan contains a number of assumptions and projections to support self-financing. These will need to be carefully monitored to compare them to actual performance and proactive management undertaken if significant variations begin to emerge.

| Risk | Finding |
|---|---|
| Change of General Ledger – from 1 April 2011 the Council has moved to Total by Consillium (from Navision). This also results in changes to the sales and purchase ledgers. | I have performed appropriate investigations and procedures to satisfy myself that the transfer of the general, sales and purchase ledgers were undertaken appropriately. |
| Financial reporting – specifically the disclosure of material exceptional items. The Council has previously been required to amend their financial statements to correct the disclosure of material exceptional items. I will review disclosures within the 2011-12 financial statements. | The Council produced a set of financial statements that were based on the pro forma set of financial statements contained within the Code guidance notes. This significantly reduced the number of misstatements that related to non compliance with the Code, as detailed below. |

Misstatements and Uncertainties

I found a number of material classification errors within the Net Cost of Services analysis in the Comprehensive Income and Expenditure Statement. All services provided by the Council are analysed as per the guidance in the Service Reporting Code of Practice for Local Authorities (SeRCOP). The aim of SERCOP is to ensure data consistency and comparability between local government bodies. In particular I found, £8m Council tax benefit payments and income that were shown within Housing but should have been shown within Central Services and £1.1m of services that were within Central Services that should have been shown within Non-distributed Costs, as well as other smaller movements. Officers have agreed to amend the financial statements for all of these errors and they have no impact on the reported financial position.

I also found a number of disclosure and typographical errors and I also asked your management to enhance a number of disclosures to improve readers' understanding of the accounts. Officers have amended all of these and they had no financial impact on your financial statements. The changes are of such a size and nature that I am not required to report them in my Governance Report. To assist the Council going forward they have been summarised in a memorandum which will be shared with the Head of Finance.

The area that we found the majority of the errors and uncertainties was in Property, Plant and Equipment. Table 2 details those that I am required to bring to your attention.

Table 3: **Property, Plant and Equipment Issues**

| Issue | Response |
|--|---|
| <p>Completeness of the Asset Register</p> <p>Our audit identified a disposal which had a receipt (£15,100) but had no corresponding asset value. Further investigation revealed that land with a perceived value below £20,000 (£0.02m) is not included in the asset register. Your valuer has provided a detailed list of the individual items of land but these do not have an individual value associated with them. Your valuer has formally certified that, in their professional view, in total the individual items of land have a collective value below £1m.</p> | <p>The Council's accounting policy is to only capitalise items above £0.02m. However, these assets do not have individual values therefore there is uncertainty over the consistent application of this policy. Whilst overall I am satisfied that the Council has clear records of the assets it owns and that this does not result in a material misstatement the Council should:</p> <ul style="list-style-type: none"> ■ review the asset listing and in consultation with the valuer determine the most appropriate approach for obtaining appropriate individual valuations for these assets; and ■ conclude how it wishes to monitor and account for these assets in the future. <p>I will also seek representations from management that there is no material misstatement.</p> |
| <p>Council House Dwelling Depreciation</p> <p>In previous years the Council has used the Major Repairs Allowance (MRA) [figure from the Housing Subsidy grant claim] as a reasonable estimate for HRA dwelling depreciation.</p> <p>However, given the large impairments in recent years the difference between the MRA figure and depreciation calculated in line with the Council's accounting policy of depreciating over the life of the assets (75 years) has widened to the point that it is no longer an appropriate estimation technique.</p> | <p>The Council has agreed to calculate depreciation using the life of the assets (75 years). This has reduced the depreciation charged to the HRA in 2011/12 by the material amount of £1.4m. There is also a movement between reserves to account for the overcharge in 2010/11. It has no impact on Housing Tenants or Council Tax with any difference being reflected in the Capital Adjustment Account offsetting an equivalent depreciation charge.</p> |

| Issue | Response |
|--|---|
| <p>Valuation of Assets</p> <p>Depreciated replacement cost (DRC) is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration. In the public sector where DRC is used as the valuation methodology, the ‘instant build’ approach should be adopted. The ‘instant build’ approach means that finance costs are excluded from the valuation.</p> <p>The Royal Institute of Chartered Surveyors (RICS) Valuation Paper 10, which valuers will refer to, states that finance costs should be included. Therefore a valuer would only know not to include finance costs if explicitly stated in the engagement terms.</p> <p>The Council did not make this requirement explicit to the valuer and therefore the value of a number of assets was overstated as they included finance costs.</p> | <p>The Council has reviewed the value of its assets valued using DRC and reduced the value of the land and building assets as at 31 March 2012 by £1.058m. There is no impact on council tax.</p> |
| <p>Market Hall Rugeley</p> <p>The Council leases the building for the Market Hall at Rugeley. The arrangement is currently treated as an operating lease. A review of the lease identified that, in our view, the characteristics of the lease are more akin to a finance lease. However, due to the rental values involved and the valuer’s view that the building has no current value in the open market there is not a material difference between the current accounting disclosures and that of a finance lease at this time.</p> | <p>We are satisfied that readers of your financial statements will not be materially misled by the Council’s current accounting treatment. However, we are of the view that the Council should review this lease and consider whether the nature of the arrangement indicates that it should be treated as a finance lease in future.</p> |

| Issue | Response |
|--|---|
| <p>Interest Payable (Split between the General Fund and HRA)</p> <p>As reported in previous years the debits and credits made to the Housing Revenue Account (HRA), including the split of interest payable between the HRA and the General Fund is determined by a statutory calculation known as the 'Item 8 Determination'. The Council makes an internal transfer to reflect the cost of borrowing between the General Fund and the HRA, based upon the consolidated rate of interest. The Council has used an interest figure which represents the true cost of borrowing for the HRA to ensure that the costs are borne in the correct section of the financial statements.</p> <p>The Council's approach is not in line with the Government formula but the Section 151 Officer is of the view that this is a true and fair view of the costs on the basis that the Council's outstanding borrowing can be linked to HRA capital expenditure and it considers that it is right to charge additional interest to the HRA.</p> <p>Amending for this would reduce the charge to the HRA, ie tenants of Council dwellings, and increase the charge to the General Fund, ie increase the net cost of services which impacts on the Council Tax calculation.</p> | <p>The Council has not amended for this and has estimated the movement in 2011/12 between the General Fund and the HRA would be £0.0409m.</p> |

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I identified a number of minor areas where internal control could be strengthened and these have been reported to you during the year.

Other Matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I am pleased to report that there has been continuing improvement in the production of your financial statements and in the working papers produced to support them. The development of the shared services finance team helped to accelerate this processes through increased capacity and enhanced technical expertise. Your arrangements for preparing the financial statements were significantly strengthened and the support provided to external audit has ensured an efficient year end audit process. You have recognised that as the combined team has only been in place since May 2012 that there are still improvements that can be made and I am confident you have good foundations to deliver these from.

Additional audit work was required on the audit of Property, Plant and Equipment. This work could be considerably reduced if there were:

- formal written instructions to the valuer to ensure compliance with the Code of Practice on Local Authority Accounting in the United Kingdom;
- greater clarity and transparency in the fixed asset register reports ie separation of land and buildings, consistent asset descriptors, overall figures such as disposals agreeing to the financial statements; and
- earlier consideration and discussion with external audit of complex or unusual accounting treatments.

I have discussed these with management and these will be taken forward as part of the shared services transformation plans.

Recommendation

R1 Following on from the audit of its 2011/12 financial statements the Council should:

- review the asset listing for land and property deemed to be worth less than £20,000 and, in consultation with the valuer, determine the most appropriate approach for obtaining appropriate individual valuations for these assets, and conclude how it wishes to monitor and account for these assets in the future;
 - review the lease for the Market Hall, Rugeley, and consider whether the nature of the arrangement indicates that it should be treated as a finance lease in future; and
 - to improve the efficiency of the audit and completeness of its own records on Property, Plant and Equipment consider:
 - formal written instructions to the valuer to ensure compliance with the Code of Practice on Local Authority Accounting in the United Kingdom;
 - greater clarity and transparency in the fixed asset register reports ie separation of land and buildings, consistent asset descriptors, overall figures such as disposals agreeing to the financial statements; and
 - earlier consideration and discussion with external audit of complex or unusual accounting treatments.
-

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 13 September I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 21 September.

Fees

The table below sets out the scale, proposed and the actual final 2011/12 fees. No non-audit work was delivered by the Audit Commission Audit Practice in 2011/12.

Table 4: **Fees**

| | Original scale fee (£) | Planned fee 2011/12 (£) | Expected fee 2011/12 (£) |
|--------------------|------------------------|-------------------------|--------------------------|
| Audit | 114,297 | 114,297 | 114,297 |
| Claims and returns | | 34,703 | 34,703 |
| Total | | 149,000 | 149,000 |

The Audit Commission has paid a rebate of £9,143 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £105,154.

On 28 July 2011 Ministers set out their decision to outsource all the audits currently undertaken by the in-house practice to the private sector. On 5 March 2012 the Audit Commission announced that Grant Thornton (UK) LLP had been awarded the contract for the Audit Commission's West Midlands audit work. The change of audit provider is effective from 1 September 2012 and will cover the 2012/13 audit year onwards. All staff currently employed by the Audit Commission on the audit of health and local government bodies in the West Midlands will transfer to Grant Thornton under TUPE arrangements from 1 November 2012.

Following the outsourcing the total fees charged are expected to reduce by 40 per cent to around £68,578 for 2012/13 based on scale fee information published by the Audit Commission.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my March Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified, and at appendix 3 a summary of the work undertaken in respect of shared services verbally reported to the Audit Committee on 26 June 2012.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 5: **Value for money conclusion criteria and my findings**

| Criteria | Risk | Findings |
|---|---|---|
| <p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</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 Council has received significant cuts to its grant funding and other streams of income. There is a risk that the authority will not have the income and reserves to deliver the services required going forward.</p> | <p>Financial Governance</p> <p>The Council has been clear in its communication of the medium term financial strategy and challenges. The Leadership Team have focused on the move towards shared services and outsourcing (for relevant service areas). Presentations have been made to Cabinet indicating the savings which have to be made based upon different scenarios.</p> <p>I identified that the Audit & Governance Committee could provide stronger financial challenge and it is currently reviewing its training requirements following the addition of new members.</p> |

| Criteria | Risk | Findings |
|----------|------|--|
| | | <p>Financial Planning</p> <p>The shared services initiative supports the Council's approach to longer term decisions to manage financial risks, as does the outsourcing of the leisure services. Both of these initiatives are forecasting material savings over three years and has meant that the Council has not had to make significant redundancies.</p> <p>There is a planned use of reserves over the 5-year Medium Term Financial Plan which is considered reasonable. The Leadership Team has a good awareness of the financial implications of the risks facing the Council. This is demonstrated through the shared services project where a good risk log is in place. The Council has performed sensitivity analysis on the financial forecasts which indicates what level of action would be required if the financial position was to be worse than expected.</p> <p>The Council is forecasting that they will remain in financial balance until the end of the 2014/15 financial year. After this, there are significant funding risks which present considerable risks for the financial position in 2015/16 and 2016/17.</p> <p>Financial control</p> <p>Budgets are generally not exceeded with expenditure being controlled well. 2011/12 saw an increase in reserves in line with the Financial Strategy. These will support future financial pressures which have been forecast. The financial position will be more strained in future years, but the Council has a sound level of borrowing and has cash plans in place to support them as a 'going concern' on a cash basis.</p> <p>The financial performance of the Council is reported at a lower level to budget holders and also to Cabinet and Leadership Team on an ongoing basis (November 2011 and February 2012). The S.151 officer reports on the position against the whole medium term financial plan ie 2011-12 to 2015-16 and this includes reporting against the current year position in a summary form. The information reported to Cabinet is in a different format to that</p> |

| Criteria | Risk | Findings |
|---|---|--|
| | | <p>presented in the financial statements. The shared services initiative is planned to improve financial reporting to provide more detail on a more regular basis to Members.</p> <p>The Council has secured significant borrowing in 2011/12 through a PWLB loan to make the required payment to Government for their housing stock. This was part of the longer term housing strategy and represents the best rate available to the Council.</p> |
| <p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p> | <p>The authority currently shares seven services with Stafford Borough Council. There is a risk that the process of transformation will impact on the delivery of services.</p> | <p>Prioritising resources</p> <p>In 2011/12 there was clear leadership from the Leader and Cabinet. Political leadership was clear and supports the prioritisation of resources. This has been a busy year for the Council with two significant Leisure projects being delivered, as well as progress on the regeneration programme and development of the shared services arrangements.</p> <p>Plan for 2012/13 include further regeneration which is now possible through funding from the Local Enterprise Partnership (LEP) and will enable the Council to put in place the infrastructure at Mill Green for an Industrial Park. This will provide financial payback by 2015.</p> <p>The Council has now made the payment to Government to manage its own housing stock as part of its 30-year Housing Revenue Account (HRA) Business Plan. This has required considerable planning and development in 2011/12 and the Council has undertaken consultation with tenants and the Housing Policy Development Committee.</p> <p>The Council challenges the way it delivers services, as evidenced by the Shared Services arrangements which challenges the cost-effectiveness of existing activities. There was also a considerable level of consultation with front line staff within this project.</p> |

Criteria**Risk****Findings****Improving efficiency and productivity**

The Council has set out to tackle larger projects over the longer term to provide savings and efficiencies, eg the outsourcing of leisure services and shared services, rather than stripping costs out of existing services. The focus has been on service redesign. The Council is also clear on how their significant projects link into its 4 priority areas. Generally, the Council has increased its commissioning of services where this provides better value for money rather than providing them in house. They have recently appointed a Head of Commissioning to oversee the delivery of the Leisure contract. The street scene contract has recently been brought back in after the Company it was let to went into administration. However, the Council are proposing a further tendering exercise in the future to ensure that this service is delivered as efficiently as possible.

We undertook a specific piece of work looking at the impact of shared services and the feedback from that is included in appendix 3. The overall conclusion was that both councils are clear that sharing services is a three stage process:

- bringing services together;
- streamlining the structures; and
- implementation of the transformation plans, including LEAN improvements.

Each of these stages is required to deliver economy, efficiency and effectiveness. Each service is at a different stage in their journey, but progress has been made in all areas and plans are in place for how to further develop the seven services to maximise benefits for the councils' and end users. I am satisfied that arrangements in 2011/12 are adequate but have highlighted that, going forward, the impetus for change will reduce as services embed. Strong corporate leadership should therefore be maintained to ensure that the benefits of sharing services are maximised.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF CANNOCK CHASE DISTRICT COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Cannock Chase District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Cannock Chase District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Finance with s151 Responsibilities and auditor

As explained more fully in the Statement of the Head of Finance with s151 Responsibilities, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Cannock Chase District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Cannock Chase District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of Cannock Chase District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Grant Patterson
District Auditor

No 1 Friarsgate, 1011 Stratford Road, Solihull, B90 4EB

September 2012

Appendix 2– Draft letter of management representation

Cannock Chase District Council – Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Cannock Chase District Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements or uncertainties summarised in the report are not material to the financial statements, either individually or in aggregate.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;

- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Specific representations

The Council maintains a detailed list of the individual items of land that have not been included within the asset register. These do not have an individual values associated with them. Your valuer has formally certified that, in their professional view, in total the individual items of land have a collective value below £1m. The Council has considered the list and is satisfied that the balance sheet is not materially mis stated.

Signed on behalf of Cannock Chase District Council

I confirm that the this letter has been discussed and agreed by the Audit & Accounts Committee on 25 September 2012

Appendix 3 – Shared Services

Review of shared services at Stafford BC and Cannock Chase DC

Scope

To assess the progress in developing shared services between Cannock Chase District Council and Stafford Borough Council. Our work focused on the three areas of economy, efficiency and effectiveness by specifically considering:

- the impact of shared services on the medium term financial strategy, and
- the ability to maintain delivery of services with reduced resources.

Objectives

Three key questions were identified that would enable us to assess the progress each Council had made. These are specifically linked to our value for money assessment of economy, efficiency and effectiveness.

Results

Overall conclusion

Both councils are clear that sharing services is a three stage process: bringing services together; streamlining the structures; and implementation of the transformation plans, including LEAN improvements. Each of these stages is required to deliver economy, efficiency and effectiveness. Each service is at a different stage in their journey, but progress has been made in all areas and plans are in place for how to further develop the seven services to maximise benefits for the councils' and end users.

Economy – Is each Council delivering the planned savings from the shared services?

- The shared services agenda has delivered the planned savings for 2011/12 across both councils. Savings have mainly been delivered from staff vacancies. Because of the critical mass created through shared services the vacancies have not had to be filled. This position would not have been possible if the sharing of services had not gone ahead.
- For 2012/13 the savings have been mapped and are starting to be delivered through the progression of transformation plans within each department. These are at varying stages of development and implementation.

Efficiency – Is the sharing of services progressing in line with the agreed timescales and are users of the services gaining assurance that these plans are on track?

- All seven shared services now have a clear leadership structure and are being managed as one service across both councils. Staffing structures below this are agreed for all areas except Revenue and Benefits which should be finalised by July 2012. All services have transformation plans in place.

- Delivery of a single shared service is at a different stage of development for each area. Both councils are using this exercise as an opportunity to standardise and streamline business processes, infrastructure and the IT platform. Flexibility has been built into the plans to recognise and maintain the different cultures and needs of each Council.
- Engagement with staff has been thorough and taken time, but services are being developed based upon the requirements of the end user. This has led to some slippage as services are developed and piloted.

Effectiveness – Is there a process for measuring the performance of these services and is there evidence of maintained or improved services for users?

- Both councils have focused on maintaining services with reduced resources to ensure that the economic climate did not have a detrimental effect on service delivery. The fact that services have been maintained and in some cases improved is a notable achievement.
- Revenues and Benefits has demonstrated a marked improvement in performance for the user, trialling new ways of working which streamlines processes and Building Control has sustained its viability within the current climate by reducing costs and overheads.

Risk for the future

- Going forward, the impetus for change will reduce as services embed. Strong corporate leadership should be maintained to ensure that the benefits of sharing services are maximised.

Appendix 4 – Action Plan

Recommendations

Recommendation 1

Following on from the audit of its 2011/12 financial statements the Council should:

- review the asset listing for land and property deemed to be worth less than £20,000 and, in consultation with the valuer, determine the most appropriate approach for obtaining appropriate individual valuations for these assets, and conclude how it wishes to monitor and account for these assets in the future;
- review the lease for the Market Hall, Rugeley, and consider whether the nature of the arrangement indicates that it should be treated as a finance lease in future; and,
- to improve the efficiency of the audit and completeness of its own records on Property, Plant and Equipment consider:
 - formal written instructions to the valuer to ensure compliance with the Code of Practice on Local Authority Accounting in the United Kingdom;
 - greater clarity and transparency in the fixed asset register reports ie separation of land and buildings, consistent asset descriptors, overall figures such as disposals agreeing to the financial statements; and
 - earlier consideration and discussion with external audit of complex or unusual accounting treatments.

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| Responsibility | Head of Finance |
|-----------------------|-----------------|

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| Priority | High |
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| Date | December 2012 |
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| Comments | |
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Appendix 5– Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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0844 798 7070

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- any director/member or officer in their individual capacity; or
- any third party.

