

Annual Audit Letter

Suffolk 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 covers:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

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

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

The changes arising from the introduction of International Financial Reporting Standards (IFRS) has had a significant impact on both the Council's preparation and my audit of the accounts. The Council submitted its financial statements for audit on 10 August 2011, after the 30 June 2011 statutory deadline. The Council's Statutory Financial Officer advised me before the 30 June 2011 that further work was necessary to correct issues arising from the Council's quality review of the draft accounts to comply with the new International Financial Reporting Standards. The Statutory Financial Officer was not prepared to certify the draft accounts until these issues were resolved. I see this as strong system of internal control which mitigated some of the extra

risks to my audit work and timetable. Despite the late submission of accounts and the challenges this posed for me, my team and the Council, I was able to issue an unqualified opinion and certificate on 30 September 2011. The Council continues to have good documentation and working papers supporting the accounts.

Value for money

On 30 September 2011, I issued an unqualified value for money conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Significant matters arising during my audit

I reviewed £349,268 termination payments made as part of compromise agreements to three former senior officers between March 2011 and July 2011. I did not challenge the payments but do have some observations on the Council's decision-making process. I make one specific recommendations to members to improve the governance and probity for all future termination payments.

Current and future challenges

Economic downturn and pressure on the public sector

The economic downturn is placing increasing pressure on the public sector as a whole. This is reflected in the:

- challenging Comprehensive Spending Review settlement;
- increasing demand for key services; and
- reduced ability of members of the public to pay for services;

In addition there are challenges arising from possible boundary changes and the increased level of pension costs arising from the triennial revaluation and changing assumptions regarding pensionable employees. Taken together, these challenges will put increasing pressure on the Council's finances.

The Council is well-placed to meet these challenges. It has a well founded and robust budget setting and financial management system based on medium term planning. It has also modelled the impact of the challenges it faces and has in place a soundly based Medium Term Strategy.

Joint arrangements / shared services

Central Government has identified joint arrangement and shared services as a key element in councils reducing their overall costs. The Council has a track record of partnership working with a range of public, private and voluntary sector bodies. There are recent examples to show that this approach is being continued.

Local Government Pension Scheme reforms

In March 2011 Lord Hutton's Public Service Pensions Commission published its report setting out proposals for reducing the short and long term cost of pensions within the public sector. On 7 October 2011, the Department for Communities and Local Government (DCLG) published their response in a consultation paper. Responses to this paper are due by 6 January 2012.

The DCLG propose to raise £900 million from the changes over the next three years starting from 1 April 2012. The paper sets out two options to achieve these savings.

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

The Council submitted its financial statements on 10 August 2011, after the deadline of 30 June 2011. The Council's Statutory Financial Officer advised me before the 30 June 2011 that further work was necessary to correct issues arising from the Council's quality review of the draft accounts to comply with the new International Financial Reporting Standards. The Statutory Financial Officer was not prepared to certify the draft accounts until these issues were resolved. I see this as strong system of internal control which mitigated some of the extra risks to my audit work and timetable. Although the accounts were received later than 30 June, when they were, the financial statements were supported by a thorough quality review together with assurance and certification by the Statutory Financial Officer. Working papers provided to support the accounts have continued to be of a good quality this year. Finance staff have worked effectively in a more compressed audit timetable to ensure prompt resolution of audit queries.

I reported the findings of my audit to Suffolk County Council's Audit Committee at its meeting of 29 September 2011. I reported that my audit had identified a number of amendments in the financial statements, one of which was material in nature, which management agreed to correct. All of these amendments were presentational in nature and do not affect the Council's reported financial performance or reserves position. I identified two non material but non trivial errors that management did not agree to correct. My report also referred to any issues I identified in respect of accounting practices, accounting policies, accounting estimates and financial statements disclosures. There were only a few of these and they had all been amended by the Council.

I issued my audit report including an unqualified opinion on the financial statements on 30 September 2011 and this opinion is included in the financial statements that the Council has published on its website.

Significant weaknesses in internal control

No significant weaknesses in fundamental systems were identified during the course of the audit. I have not identified any material weakness in the design or operation of an internal control that might result in a material error in your financial statements.

Significant matters that were discussed or subject to correspondence with management

Between 31 March and 31 July 2011, the Council incurred expenditure of £349,268 on severance payments as part of compromise agreements for the termination of employment of three former senior officers. Termination payments at 31 March 2011 for the former Director of Resource Management of £63,866 and Head of Scrutiny and Monitoring of £66,710 are included as expenditure and disclosed under officer's remuneration at note 28 of your 2010-2011 financial statements. A severance payment of £218,692 for the former Chief Executive was made on 31 July 2011 and will be recognised as expenditure in 2011-2012 financial statements. Council has disclosed this payment at note 6 to your financial statements as an event after the balance sheet date and before my audit opinion.

It is the responsibility of the Council to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance. Decisions taken to terminate the employment of three former senior officers on the basis of compromise agreements were solely a matter for the Council. The Council's statutory officers and you as members have certain responsibilities in respect of the decisions and transactions of the Council. I do however have specific powers and duties under the Audit Commission Act 1998 in relation to matters of legality and value for money. As a result I reviewed the payments made to the former Director of Resource Management and Head of Scrutiny and Monitoring and the proposed payment to the former Chief Executive. I did so on the basis that my observations at the time did not constitute advice and were treated as provisional based solely on the information available to me and without in any way prejudging the exercise of my duties and powers.

In my view, for proposed payments under the terms of a compromise agreement to be lawful, the Council would:

- Require the statutory capacity to make a payment in compromise of a claim.
- Make a decision in accordance with mandatory procedural requirements.
- Have to have acted reasonably, taking into account relevant factors, not taking into account irrelevant factors and not reaching a decision that no reasonable person could have reached.

For all three former senior officers, I reviewed the compromise agreements and where available to me the relevant reports and considerations of committees, business cases, internal advice from the Head of Human Resources, Statutory Financial Officer, Monitoring Officer and any associated external legal and financial advice and instructions.

On the basis of my review at the time, I did not and at the time of writing this report I still do not intend to challenge the payments. You need to be aware that my view is based on the information I currently have. If I receive further information (including as a result of a question about or objection to the accounts) I may reconsider this matter and form a different view. I do however have some observations on the decision-making process. Particularly for the termination of employment for the former Director of Resource Management and Head of Scrutiny and Monitoring, I found significant failings in the paperwork and evidence to demonstrate that the Council considered all relevant factors, internal and external advice and adhered to its own standing orders, financial regulations and terms and conditions of employment before reaching its decision. I found that this process was far more comprehensive to evidence the decision taken for the former Chief Executive.

Irrespective of the seniority of staff, the Council's statutory officers and you as members have a specific duty to ensure the terms of any proposed payment under a compromise agreement is lawful, reasonable and represents value for money. For all future termination payments, the Council needs to have robust governance arrangements in place at all times. Council's members and statutory officers need to demonstrate they have considered and acted on all internal and external legal, HR and financial advice before reaching a decision and making any payment. This should include a detailed cost and benefit assessment of all the options available to the Council prior to termination of employment. In addition to compromise agreements, these options could include, for example, performance management, capability proceedings, managing underperformance as well as termination in line with contract of employment and associated notice periods. I have asked the Council's Statutory Financial Officer and Monitoring Officer to address my observations and ensure that this applies to any future terminations of employment. I reported my findings to the Council's Audit Committee on 29 September. I also ask in this letter that Council members ensure that it exercises better governance and probity over all future termination payments.

Recommendations

Recommendations

- R1** Complete a post-implementation review to identify and address the issues which led to the delay in submitting 2010-2011 financial statements for audit. The Council should use the actions from this to ensure it is able to certify and submit its 2011-2012 financial statements by the statutory deadline of 30 June 2012.
- R2** Strengthen the governance and probity for all future termination payments for those senior officers designated by the Council under the Local Authorities (Standing Orders) (England) Regulations 2001. Before reaching a decision and making any payment relating to a termination of employment, Council members should ensure they have:
- Agreed how they will exercise good governance, scrutiny and probity over termination of employment in accordance with the Council's constitution and committee structures.
 - Considered and acted upon all internal and external legal, HR and financial advice for individual cases.
 - Considered and evidenced a detailed cost and benefit assessment looking at all the options available prior to termination of employment.
 - Acted in accordance with the Council's constitution, standing orders, financial regulations and terms and conditions of employment.
 - Received and acted upon reports, as appropriate, from the Council's Head of Paid Service, Statutory Financial Responsible Officer and Monitoring Officer.
 - Reached a decision having considered carefully all relevant factors and information.
 - Ensured that any actions are lawful and represent value for money.

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 Council had a detailed and robust savings and efficiency plan in place for 2010-11. This was reported to Cabinet in February 2010, as was the Council's response to the Coalition Government's emergency budget in July 2010. The Council's budget for 2010-11 was set at £455 million a 3.5% increase over the 2009-10 budget. This total included adjustments for budgeted savings of £9.3 million and further in year savings of £6.3 million to cover reductions in governments grants of £4.4 million and provide some further financial flexibility for future cuts in government grants.</p> <p>Accurate in-year forecasting enabled the Council to deliver not only the budgeted savings noted above, but additional revenue underspend of £2.816 million (0.6 per cent of net budget) at the end of 2010-11. Previous assessments indicated that monitoring arrangements were strong, with good finance and performance links via the quarterly Integrated Performance and Finance monitoring report. These arrangements have been maintained in this period.</p>

My assessment in this area found evidence that the focus has been on longer term financial solutions rather than short term financial fixes, and that there is no dependency on reserves and investment income to balance budgets, or the use of reserves to fund recurrent expenditure.

Moving forward to 2011-12 and beyond, there is clear evidence that the leadership team understands the financial management challenges facing the organisation, that the Council has used appropriate modelling of key financial data and that there has been effective challenge by members, as part of the formal budget setting process, of the financial assumptions in the 2011-12 budget.

My assessment concluded that the Council has robust systems and processes to manage effectively financial risks and opportunities and to secure a stable financial position.

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.

The Council is committed to an ongoing review and assessment of its strategic priorities and to implementing arrangements to ensure they are delivered. Stakeholder consultation plays a key role in strategic development within Suffolk and this is demonstrated within the Council's consultation plans.

There is evidence of strong leadership from senior management and members to ensure that resources are prioritised and there is a focus on spending reductions. Resources have been reallocated to meet changing needs as part of this process.

There is a good understanding of costs and how these relate to performance. The Council is prepared to investigate longer term options in order to secure reductions, for example via commissioning with other providers and encouraging private sector input for discontinuing services. This forms a key element in the strategic development of the Council.

The Council uses performance and financial monitoring to ensure ongoing efficiency and productivity. There is good use of benchmarking by the Council, combined with peer assessment and stakeholder feedback. Staff are engaged in the efficiency savings programme via individual service delivery plans and via monitoring of outturn by service managers.

My assessment concluded that the Council has proper arrangements in place for challenging how it secures economy, efficiency and effectiveness.

Closing remarks

I have discussed and agreed this letter with the Interim Chief Executive and the Head of Strategic Finance. I will present a draft version of this letter at the Audit Committee on 14 November 2011 for Committee Members to consider. I will subsequently provide copies to all Council Members.

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 Plan	May 2011
Annual Governance Report	September 2011
Audit opinion on the accounts	September 2011
Annual Audit Letter	October 2011

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

Neil Harris

District Auditor

November 2011

Appendix 1 – Fees

	Actual (£)	Proposed (£)	Variance (£)
Audit fee	246,000	223,500	22,500
Total	246,000	223,500	22,500

When I set my 2010-2011 audit fee, this was based on a number of assumptions, including that I did not need to undertake work for any new or increased audit risks and that we received timely financial statements and working papers. Inevitably, the late submission of the Council's financial statements has had an impact on audit risks and procedures and the time I and my team needed to complete work to support my audit opinion. I incurred additional costs of my time and of my own in-house legal and technical advice to review termination payments for three former senior officers, as set out already in this report. I did not foresee these risks at the time I prepared my audit plan and my fee did not include any assumptions that I would undertake work in this area.

For this reason, I have confirmed with the Head of Strategic Finance that I will need to charge additional audit fees to cover the costs of this extra work. My additional fee is £22,500, of which £11,950 relates to costs incurred in the review of termination payments for three former senior officers; and £10,550 relates to the impact on audit procedures of the late submission of the Council's financial statements.

Appendix 2 – Action plan

Recommendations

Recommendation 1

Complete a post-implementation review to identify and address the issues which led to the delay in submitting 2010-2011 financial statements for audit. The Council should use the actions from this to ensure it is able to certify and submit its 2011-2012 financial statements by the statutory deadline of 30 June 2012.

Responsibility	Head of Strategic Finance
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Priority	High
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Date	January 2012
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Comments	To be reported to the Audit Committee at its January 2012 meeting.
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Recommendation 2

Strengthen the governance and probity for all future termination payments for those senior officers designated by the Council under the Local Authorities (Standing Orders) (England) Regulations 2001. Before reaching a decision and making any payment relating to a termination of employment, Council members should ensure they have:

- Agreed how they will exercise good governance, scrutiny and probity over termination of employment in accordance with the Council's constitution and committee structures.
- Considered and acted upon all internal and external legal, HR and financial advice for individual cases.
- Considered and evidenced a detailed cost and benefit assessment looking at all the options available prior to termination of employment.
- Acted in accordance with the Council's constitution, standing orders, financial regulations and terms and conditions of employment.
- Received and acted upon reports, as appropriate, from the Council's Head of Paid Service, Statutory Financial Responsible Officer and Monitoring Officer.
- Reached a decision having considered carefully all relevant factors and information.
- Ensured that any actions are lawful and represent value for money.

Responsibility	Head of Strategic Finance; Monitoring Officer; and Head of Human Resources
Priority	High
Date	January 2012
Comments	To be reported to the Audit Committee at its January 2012 meeting.

Appendix 3 – 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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