

North Hertfordshire District Council

Annual Audit Letter 2010/11

December 2011

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1. Executive summary

Purpose of this letter

This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at North Hertfordshire District Council ('the Council') during our 2010/11 audit. This Letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

What this Letter covers

This Letter covers our 2010/11 audit, including key messages and conclusions from our work in:

- auditing the 2010/11 year end accounts (Section 2);
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money is achieved. (Section 3); and
- certification of grant claims and returns to various government departments and other agencies (Section 4).

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our main audit conclusions for the year

The 2010/11 accounts give a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council.

The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Context

In the current financial climate, the Coalition Government's continuing priority is to reduce the deficit whilst ensuring that economic recovery continues. Savings of over £81 billion are planned from Government spending by 2015, including a 26% reduction in grants to local government over the four year period. At the same time, the Government has stated that it is their aim to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:

- further reducing ring-fenced central government grants; and
- planned changes to the administration of business rates so that any council that expands its business base would see increased business rates that it would be able to keep.

This Letter has been written in the context of the significant change agenda in which the Council is operating. The Council is experiencing increases in demand for services such as housing benefits and this is coupled with reductions in income from areas such as local land charges and car-parks. Whilst the Council has an adequate level of general reserves and is not currently planning on using these to support the revenue budget, like all other local authorities it needs to meet the significant savings targets within its Medium Term Financial Strategy.

Key Messages

Accounts audit

We issued an unqualified opinion on the Council's financial statements, following approval by the Finance, Audit and Risk Committee on 19 September 2011.

The supporting working papers were of a good standard and the financial statements were compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, based on International Financial Reporting Standards (IFRS).

The key messages arising from our audit of the Council's financial statements were:

- the need to undertake a comprehensive exercise to update and ensure the accuracy of property asset information relating to valuations;
- to consider current procedures for identifying and recognising grant contributions against the requirements of the accounting Code; and
- to review current working paper and financial closedown arrangements to identify potential efficiencies for future reporting under IFRS, including an appropriate formalisation of terms of engagement with contributors such as property valuers.

Further details can be found in section 2 of this Letter.

Value for Money

In providing the opinion on the financial statements we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources. We issued an unqualified VFM conclusion on 19 September 2011. Further details can be found in section 3 of this letter.

Grants certification

We have certified three claims and returns, of which none were qualified and three amended. Further details can be found in section 4 of this Letter.

Key areas for Council action

We highlight the following key areas, where the Council should take action to further improve its arrangements in 2011/12:

- the achievement of financial plans following the Government's Comprehensive Spending Review and announcement of the Local Government Finance Settlement;
- the Council should ensure that suitable monitoring arrangements are put in place to maintain a high standard of Internal Audit support following the creation of the Shared Internal Audit Service (SIAS); and
- key actions in response to the recommendations raised in respect of the accuracy of the Council's property, plant and equipment records and valuation processes as identified by the 2010/11 accounts audit.

The context for these key messages can be found in this Letter. A list of the reports issued during the year can be found at Appendix A. Recommendations have been raised within the reports listed and the Council should ensure that these recommendations are implemented as planned. Appendix B sets out our actual and budgeted fees for 2010/11.

Acknowledgements

This Letter has been agreed with the Strategic Director of Finance, Policy and Governance and was presented to Finance, Audit & Risk Committee on 8 December 2011.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
December 2011

2. Audit of the accounts

Introduction

We issued an unqualified opinion on the Council's 2010/11 accounts on 19 September 2011, ahead of the statutory certification deadline of 30 September 2011. Our opinion confirmed that the accounts give a true and fair view of the Council's financial affairs at 31 March 2011 and of its income and expenditure for the year.

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Finance, Audit & Risk Committee at the Council). We presented our Annual Report to those Charged with Governance to the Finance, Audit & Risk Committee on 19 September prior to the approval of the accounts and summarise only the key messages in this Letter.

International Financial Reporting Standards

2010/11 was the first year that councils were required to prepare their accounts under International Financial Reporting Standards (IFRS). We undertook a review of the Council's preparedness in May 2011 and assessed the arrangements for re-stating each line of the balance sheet on a RAG basis (Red, Amber, Green). Overall we rated the Council's arrangements as being Green.

As part of the work undertaken on the audit of the accounts, we assessed whether there had been any departures from the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 which is IFRS compliant. We did not identify any significant departures from these requirements.

Audit of the accounts

We recommended 9 adjustments to the draft accounts, the most significant of these being:

- the write down of £1,808k in relation to the Council's owned share of Hitchin Town Hall resulting from errors identified in current valuation workings and historic accounting records; and
- recognition of £400k Performance Reward Grant income from 'receipts in advance' following confirmation that all relevant conditions had been met.

Management agreed to make these adjustments which resulted in a £1,808k reduction in recorded non-current asset values and a £400k reduction in current liabilities accompanied by the corresponding recognition of £400k additional income within Net Cost of Services respectively.

Of the remaining recommended adjustments 2 remained unadjusted by management, as approved by those charged with governance at the Finance, Audit & Risk Committee on 19 September.

The actions agreed with the Council to minimise the chance of these errors occurring in the 2011/12 accounts were included in our Annual Report to those Charged with Governance and we will follow up on progress as part of our 2011/12 audit.

Financial performance

The Council reported an underspend of £399k against its agreed 2010/11 working budget.

As at the end of month three (June) of 2011/12, which constitutes the latest reported financial information at the time of preparing this report, the Council was reporting a favourable variance of £61k against its working budget position; however, it is forecasting a year-end deficit of £387k against the approved budget. The Council understands the reason for the variance against budget and has agreed actions to address these variances. As part of its budget, the Council has included a contribution from reserves to be used only in exceptional circumstances. To date, this fund has not been applied.

Our review of Financial Resilience concluded that the level of the Council's General Fund reserves at 31 March 2011 (£1,924k) remains sufficient in relation to the Net Cost of Services. However it should be noted that General Fund reserves represent only one source of funding for future years costs and the Council has access to further earmarked reserves, albeit the redundancy programme has diminished them in year. Overall, it is our view that the Council's level of available reserves and contingencies provide adequate cover for known future financial risks.

We will continue to keep the Council's financial position under review as part of our 2011/12 audit and the follow-up work we have planned on the Financial Resilience element of our VFM review.

Financial systems

We undertook work on key financial systems sufficient to support our approach to the accounts audit. The work was in three main areas:

- review of key financial controls for the purpose of designing our programme of work for the financial statements audit;
- assessment of the work of internal audit to help inform our risk assessment of the adequacy of the Council's financial systems for producing the 2010/11 accounts; and
- high level review of the general IT control environment.

Our work did not identify any control issues that present a material risk to the accuracy of the financial statements.

However, we identified a number of areas where controls should be strengthened, including:

- the potential integrity of journal input processes and controls; and
- use and ownership for the results of work and opinions of experts presented in the financial statements.

The actions agreed with the Council to resolve these minor internal control deficiencies were included in our Annual Report to those Charged with Governance and we will follow up on progress as part of our 2011/12 audit.

Annual Governance Statement and Explanatory Foreword

We examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS) and read the AGS and Explanatory Foreword to consider whether they were in accordance with our knowledge of the Council. Our review of internal audit also supported our review of the Annual Governance Statement (AGS) which in turn informs our VfM conclusion and our audit of the financial statements.

We concluded that the AGS and Explanatory Foreword were consistent with our knowledge of the Council, subject to a small number of proposed adjustments, which management incorporated into the final versions of the documents. The Council had adequate processes in place to ensure that the AGS was updated to reflect developments up to the date of the signing of the accounts.

Certification Arrangements

We received no questions or objections in respect of the financial statements for the year ended 31 March 2011 and were able to issue our audit certificate on the same date as signing the accounts.

Whole of Government Accounts (WGA)

The Council submitted its draft WGA L-Pack for audit by the Department for Communities & Local Government (CLG) deadline of 29 July 2011. Only minor adjustments were required to ensure consistency with the final audited version of the accounts.

We submitted the audited WGA to the CLG by the deadline of 30 September 2011.

3. Value for money

Introduction

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- regularly review the adequacy and effectiveness of these arrangements.

We were required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience; and
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.

Key Conclusions

We issued our annual VFM conclusion on 19 September 2011, at the same time as our accounts opinion, meeting the required deadline of 30 September 2011.

On the basis of our assessment, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we concluded that, in all significant respects, the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Value for money projects undertaken during the year Financial resilience

We undertook a review of the Council's financial resilience to inform our VFM conclusion. This review considered a series of key financial indicators as well as the Council's arrangements against the following three key areas:

- Strategic financial planning;
- Financial governance; and
- Financial control.

Our overall conclusion is that the Council had proper arrangements for securing financial resilience but there were some areas where improvements should be made.

We presented our report to the Finance, Audit & Risk Committee on 8 December 2011, which included an agreed action plan agreed with management to deal with the issues raised. We will follow up progress in implementing the plan as part of our 2011/12 audit.

Approach to local VFM work 2011/12

At time of writing there are no changes proposed to the approach to local Value for Money work in 2011/12. We will focus on the two key reporting criteria, namely:

- the Council has proper arrangements in place for securing financial resilience; and
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We will determine a local programme of VFM audit work based on our audit risk assessment, informed by the criteria above and our statutory responsibilities and agree this with the Council. Local risks for the Council to consider at this stage include:

- the effectiveness of the new arrangements for delivering internal audit services at the council through the Shared Internal Audit Service (SIAS);
- the adequacy of its Medium Term Financial Strategy once further announcements are made by the Government in respect of local government funding settlement from 2013 onwards; and
- the impact of proposed changes to the funding and administration of housing and council tax benefits on the Council's finances going forwards.

4. Grants Certification

Introduction

Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2009/10 certification work we reported that performance had generally improved against the key performance measures but identified that the Council should work to continually reduce the number of claims requiring amendment.

We are currently in the process of completing the certification of the 2010/11 grant claims and returns. Once this work is complete we will report in full on the findings of our work to the Finance, Audit & Risk Committee on 16 January 2012.

Summary of findings to date

The Council has submitted three claims and returns for certification. At time of writing our fieldwork is complete on all three of these claims. Of these, none were qualified and three were amended for relatively minor issues identified during our testing.

Disabled facilities grant

A minor amendment was required to show certain figures on the grant return in single units, rather than thousands.

National Non Domestic Rates return

A transposition error of £27k was amended throughout the return, where its effect was repeated as a result of the original error.

Housing & Council Tax Benefit final subsidy claim

Amendments were required to reflect minor classification errors of non-HRA expenditure and overpayments, following additional testing performed by the benefits team under our direction. A series of amendments were also processed for coding errors identified by software scripts provided by the Northgate benefits system software provider.

Due to work performed by the benefits team in correctly processing the required amendments to the final subsidy claim, no qualification of the claim was required.

Appendices

A. 2010/11 reports issued

Report	Date Issued
Audit Plan	February 2011
Review of arrangements for implementation of International Financial Reporting Standards (IFRS)	May 2011
Audit Approach Memorandum	June 2011
Grants Certification Plan	July 2011
Report to Those Charged With Governance (ISA 260)	September 2011
Financial Resilience Report	December 2011
Annual Audit Letter	December 2011
Grants Certification Report	Due January 2012

B. Audit and other fees 2010/11

Audit area	Budget 2010/11	Actual 2010/11
Financial statements	£84,893	£84,893
Value for Money conclusion	£35,250	£35,250
Total Code of Practice fee	£120,143	£120,143
Certification of grant claims and returns*	£27,500	TBC

*The quoted fee for grant certification work is an estimate only and will be charged at published hourly rates.



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