



North Hertfordshire District Council

Annual Audit Letter 2009/10

18 November 2010

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1 Introduction and Key Messages

Purpose of this Letter

- 1.1 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 2009/10 audit. The 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.

Responsibilities of the external auditors and the Council

- 1.2 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).
- 1.3 We have been appointed as the Council's independent external auditor 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.
- 1.4 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 Code conclusions.
- 1.5 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.

What this Letter covers

- 1.6 This Letter covers our 2009/10 Code audit, including key messages and conclusions from our work on:
- auditing the 2009/10 year end accounts (Section 2)
 - the accuracy of grant claims and returns to various government departments and other agencies (Section 2)
 - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3).
- 1.7 A list of all the reports issued during the year is provided at Appendix A, whilst Appendix B sets out the action taken by the Council to implement the recommendations made in our reports. Appendix C sets out our actual and budgeted fees for 2009/10.

The Economy

- 1.8 In the current financial climate, the Government's most urgent priority is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £6 billion are planned from Government spending during this financial year, including some £1.1 billion in reduced grants to local government. At the same time, the Government aims to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:
- abolishing Comprehensive Area Assessment
 - reducing ring-fenced central government grants
 - abolishing LAA performance targets
 - undertaking a full review of local government finance.
- 1.9 The October Spending Review (SR) will have a significant impact on the Council, its plans and its finances. The SR announced a 28% cut in DCLG grants, estimated job losses within the public sector of 490,000 and £7bn of savings are required to be made to the welfare budget, mainly through benefit cuts. Cuts are being top-loaded with the greatest reductions being required in the first year of the SR period. The June Budget announced the Government's intention to work with local authorities to freeze council tax in England in 2011-12. The SR announced that local authorities who freeze their council tax in 2011-12 and keep their bills flat for the next four financial years will have the resultant loss to their tax base funded at a rate of 2.5% in each year of the Spending Review period.
- 1.10 This Annual Audit Letter has been written in the context of the significant change agenda in which the Council is operating taking into account the impact and challenge of the SR.

Key areas for Council action

- 1.11 We have set out below, the key area where action should be taken by the Council to further improve its arrangements during 2010/11:
- In addition to the savings target of £1.3m to balance the 2010/11 budget, the Council needs to meet a budget gap of around £6.1m over the 4 year period 2011-2015. This will be a major challenge and critical to the Council achieving this will be the strength of its strategic financial planning arrangements and the deliverability of its efficiency plans. The Council's Medium Term Financial Strategy should be reviewed following the SR and be subjected to robust stress testing and sensitivity analysis. The Council has recognised the need to consider the services it delivers and how it delivers them and where savings and changes can be made whilst minimising the impact on the standard of service delivery, and will continue to review and implement their plans.

2 Audit of Accounts

Introduction

- 2.1 We issued an unqualified opinion on the Council's 2009/10 accounts on 15 September 2010, ahead of the statutory certification deadline. Our opinion confirms that the accounts give a true and fair view of the Council's financial affairs at 31 March 2010 and of its income and expenditure for the year .
- 2.2 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 Audit and Risk Committee at the Council). We presented our Annual Report to those Charged with Governance to the Audit and Risk Committee on 15 September 2010 and summarise only the key messages in this Letter.

Audit of the accounts

- 2.3 The Council performed well in producing a timely set of accounts against a tight timetable. We were presented with the draft financial statements on 22 June 2010 and as in the previous year the accounts working papers were of a high standard.
- 2.4 Our audit work identified several reclassification adjustments within the debtors and creditors notes. These did not impact upon the net positions reported within the financial statements, but were processed by the Council for presentational purposes.
- 2.5 One reclassification adjustment (£1,417k) increased the deficit on the income and expenditure account, and reduced the actuarial losses as disclosed in the statement of total recognised gains and losses by the same amount. This adjustment was processed by the Council, and arose following the adjustment to the pension liability in the 2008/09 accounts, which carried forward to the 2009/10 accounts.
- 2.6 The Council's leisure centre assets were re-valued in the year by an external valuer. As specialized operational assets, the leisure facilities were correctly valued using the depreciated replacement cost valuation methodology. We reviewed the valuation methodology and concluded that this was reasonable and in accordance with accounting standards. Additional narrative disclosure was added to the accounts to explain the change in valuation methodology of Letchworth Leisure Centre.
- 2.7 The Council identified a control weakness within the Northgate Benefits System with the system unable to profile the age of the housing benefit debt outstanding. This represented a significant control weakness in the management of the debt. Our audit work completed did not indicate that the housing benefit debtor and associated bad debt provision included in the accounts were materially incorrect. This was a software problem between the Benefits System and the reporting tool used to produce the aged debt reports. The Council have taken action in 2010/11 to address this control weakness.

Financial performance

- 2.8 The Council reported a deficit of £7,836k on the Income and Expenditure Account for 2009/10 (£4,884k deficit in 2008/09), which reflects a £1,830k decrease in net cost of services expenditure, offset by decreases in investment income (£1,846k) and increased

pension interest cost and expected return on assets (£4,464k). The general fund reserve increased from £1,583k as at 31 March 2009 to £2,190k as at 31 March 2010.

- 2.9 The Council's financial position remains extremely challenging as it seeks to remain in financial balance whilst facing significant cost pressures impacting across local government. The latest budget monitoring report (quarter 1 report) shows that 2009/10 expenditure on the General Fund is estimated to be £19,150k, which is an increase of £915k on the working budget of £18,235k. The main reason for the adverse movement is the lower than expected investment returns, which reflect the continued low Bank of England base rate.
- 2.10 We will continue to keep the Council's financial position under review as part of our 2010-11 audit, including a risk based assessment of the robustness of the Medium Term Financial Strategy.

Financial systems

- 2.11 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. The issue regarding housing benefit overpayments, highlighted in section 2.7 of this report, is the only control weakness that we identified that presented a material risk to the accuracy of the financial statements.
- 2.12 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2009/10 accounts. We also performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that would adversely impact our audit of the accounts.

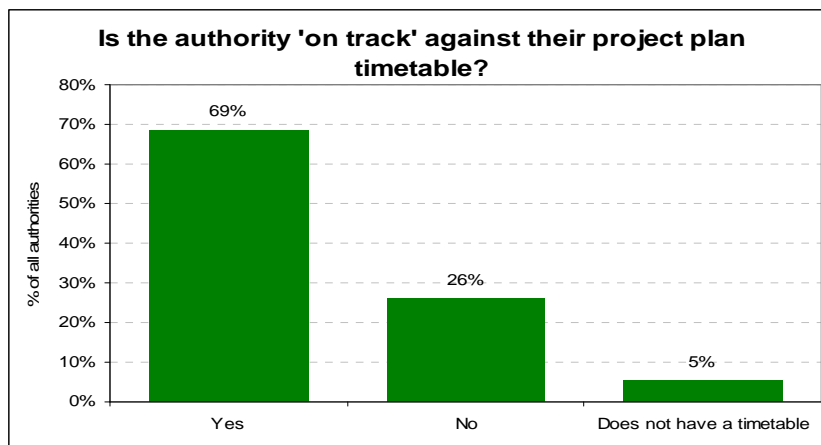
Annual Governance Statement

- 2.13 We examined the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and considered whether the statement was in accordance with our knowledge of the Council. Our work confirmed that the AGS was consistent with our knowledge of the Council and no issues arose from our work.

International Financial Reporting Standards

- 2.14 The Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) from 2010/11. The IFRS transition at the Council is being led by the finance team and a project plan is in place.
- 2.15 A survey on IFRS progress was undertaken by the Audit Commission during July 2010. The survey indicated that whilst most authorities had made adequate progress against their project plans, nearly a third had not as can be seen in the Exhibit on the next page.

Exhibit 1: IFRS Progress all authorities (source - Audit Commission)



2.16 We completed two surveys during 2009/10 on IFRS preparedness at the Council for the Audit Commission. The results of these surveys were ranked in a traffic light format and the Council were rated as 'amber', a rating consistent with many other Councils at this stage. Our work confirms that for the Council, the overall project plan remains broadly on track, and is scheduled to restate the opening balance sheet and 2009/10 accounts in January 2011. We will continue to review progress as part of our planned programme of work for 2010/11.

Grant Claims and Returns

2.17 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. In 2008-09 we reviewed 3 claims and returns, all of which were certified by the deadline.

2.18 We are currently in the process of certifying the 2009/10 grant claims and returns. Once this work is completed we will report in full on the findings of our work.

3 Use of Resources

Introduction

- 3.1 We issued our annual VFM conclusion on 15 September 2010, at the same time as our accounts opinion, and ahead of the required deadline. We concluded that, for 2009/10, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.
- 3.2 Prior to giving our VFM conclusion, we set out the basis of this conclusion and the results of our assessment against the use of resources framework, in our report presented to the Audit and Risk Committee on 15 September. In this Letter, we summarise the key messages from this work alongside relevant findings.

2009/10 VFM conclusion and UoR assessment

- 3.3 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. 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.
- 3.4 Our 2010 Value for Money conclusion has been informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009/10 Audit Plan.
- 3.5 The key developments in the Council's arrangements include:
- Improved Council outcomes that demonstrate how financial investments have contributed to the delivery of council priorities, particularly in respect of the town centre and green issues priorities.
 - The number of performance indicators monitored and reported on has been rationalised and reduced in year, allowing a greater focus on key performance areas.
- 3.6 The main areas where further action is required by the Council include:
- Since the conclusion of our review there have been significant changes announced in relation to government grant allocations and future funding and there is significant pressure on the public sector and local government in particular, to generate efficiencies and operate within reduced resources. The Council will need to ensure that the impact of these and the requirement to find savings beyond those that had been anticipated and planned for as part of the MTFS are taken into account in all future financial planning.

Approach to local value for money audit work from 2010/11

- 3.7 The Audit Commission has reviewed its work programme for 2010/11 onwards given the scale of the pressures facing public bodies in the current economic climate. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money audit work with key national stakeholders.

- 3.8 From 2010/11 we will apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Audit Commission, concentrating on:
- securing financial resilience
 - prioritising resources within tighter budgets.
- 3.9 We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in the annual audit letter.

4 Closing Remarks

- 4.1 This Letter was discussed and agreed with the Chief Executive and Strategic Director of Finance, Policy and Governance and presented to the Audit and Risk Committee on 2 December 2010.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit.

Grant Thornton UK LLP
18 November 2010

A Reports Issued

Report	Date Issued
Audit Plan	February 2010
Annual Report to those Charged with Governance	September 2010
Annual Audit Letter	November 2010
Value for Money Report	December 2010
Grants Report	January 2011

B Audit and Other Fees

Audit Area	Budget 2009/10 £	Actual 2009/10 £
Financial statements	71,796	71,796
VFM conclusion / Use of resources	37,000	37,000
Total Code of Practice fee	108,796	108,796
Certification of grant claims and returns*	30,000	tbc
Total fees	138,796	tbc

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



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