



Erewash Borough Council

Annual Audit Letter 2008/09

24 November 2009

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1 Introduction

1.1 Purpose of this letter

The purpose of this Annual Audit Letter ('letter') is to summarise the key issues arising from the work that we, Grant Thornton UK LLP, have carried out to the year end 31 March 2009 at Erewash Borough Council (the Council). This letter is intended to communicate the significant issues we have identified, in an accessible style, to the Council and key external stakeholders, including members of the public. The letter should be published on the Council's website.

1.2 The scope of our work

Our main responsibility as your external auditors is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ('the Code'). Under the Code, we are required to review and report on:

- the Council's accounts; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Council.

1.3 Key audit outcomes for 2008/09

- We held a seminar on key accounting issues for 2008/09 at our Birmingham office;
- We provided a workshop and seminar explaining the implications of the new Use of Resources assessment;
- We issued an unqualified opinion on the Council's accounts;
- We issued an 'except for' qualified value for money conclusion in some specific areas of weakness; and
- We recognised the Council was, however, generally performing adequately in its use of resources.

1.4 Acknowledgements

We would also like formally record our appreciation for the efforts and assistance provided to us by the Council's finance team.

1.5 Appendices

A list of all significant value for money recommendations issued to the Council through the 2008/09 audit is provided at Appendix A. Our responsibilities, as your external auditor, are set out at Appendix B and we set out our budgeted and actual fees at Appendix C. We demonstrate, at Appendix D, how the significant risks raised in the Audit Plan, as presented to the Audit Committee in April 2008, have been concluded during 2008/09.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from: www.audit-commission.gov.uk.

2 Audit of accounts

2.1 Key issues arising from the audit of the accounts

We issued an unqualified audit opinion on the Council's accounts on 30 September 2009, in line with the deadline of 30 September. Our opinion confirms that the accounts present fairly the Council's financial affairs and the income and expenditure for the year ended 31 March 2009.

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to the Council's Audit Committee. A detailed report was presented to the Audit Committee on 22 September 2009 and only the key issues are summarised here.

2.2 Key issues

The overall quality of the Council's working papers to support the 2008/09 accounts was of a continuing good standard and the Audit Committee approved the accounts by 25 June, in advance of the 30 June 2009 deadline.

The quality of the accounts remained high, although our audit identified the following significant matters:

Fixed assets

We considered the Council's asset management arrangements required further development. Specifically, we reported the fixed asset register was not a 'living document' that supports and effectively contributes to the management of the Council's asset base. This needs to be addressed to support the Use of Resources assessment in 2009/10.

Misstatements

Misstatements were identified and the following were adjusted:

- Revaluations had not been properly posted to fixed assets. The overall impact of these adjustments increased the carrying value of fixed assets by £655K, with a corresponding entry to the Revaluation Reserve. Since this only adjusts the balance sheet there was no impact on the general fund or the taxpayer.
- The Council's own policy is not to include assets on the balance sheet if they have a value below £10K. We identified a small number of assets below this value had been capitalised, and therefore the accounts have been amended to decrease fixed assets by £30K.

Unadjusted misstatements

When preparing the Statement of Accounts the Council, as is normal practice, used estimates where actual figures were not available. During our work, we found a small number of items where the difference between the actual expenditure and the estimate was above our threshold for reporting to the Audit Committee. The aggregate impact of unadjusted misstatements, if they had been processed, would

We discussed all accounts matters with the Audit Committee on 22 September 2009. We confirmed there was no impact to the taxpayer for any of the audit adjustments posted to the accounts.

have reduced the Council's reported income and expenditure deficit by £89K. We did not consider this detracted from the overall presentation of the accounts, and did not challenge the omission of these items from the accounts.

2.3 National Fraud Initiative (NFI)

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between audited bodies to prevent and detect fraud. This includes police authorities, local probation boards and fire and rescue authorities as well as local councils.

As part of the audit of accounts, we examined a number of data matches between Council data and records from Companies House. We did not identify any significant issues in this area.

2.4 Members' expenses

Due to the increased profile and news coverage regarding elected politicians' expenses, we examined a sample of Members' expenses as part of our work on the Council's 2008/09 Statement of Accounts. We are able to confirm that there were no issues arising from this work.

2.5 Certification of grant claims

We are required, acting as agents of the Audit Commission, to certify the Council's grant claims and returns. We have completed the certification of all the Council's claims for 2008/09 and have met all government department deadlines set under these arrangements.

3 Use of resources

3.1 Comprehensive Area Assessment

Our work on Use of Resources is performed in conjunction with the Audit Commission's work on Comprehensive Area Assessment. This work will be reported separately, but briefly this encompasses:

- an assessment of how effectively the organisation is addressing its own priorities, called "managing performance"
- an overall scored judgment taking into account the organisational assessment scores and the score for managing performance; and
- an overall assessment of how well public services are performing across Derbyshire.

3.2 Value for money conclusion

We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the use of resources conclusion and is generally informed by reference to relevant criteria under the Audit Commission Code of Audit Practice.

We issued an 'except for' qualified use of resources conclusion for the year end 31 March 2009. This means that we were satisfied that the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, except for those key lines of enquiry assessed as level 1, which were:

- understanding costs;
- commissioning and procurement;
- internal control; and
- workforce management.

The reasons for this assessment are shown in the following section.

3.3 Use of resources (UOR)

In 2009, the Audit Commission introduced a new framework and methodology for Use of Resources assessments across local government, police forces, fire authorities and primary care trusts. The new framework emphasises outcomes over processes, and brings new areas into the assessment such as environmental and workforce management. The new assessment presents a more robust challenge than the old framework, based on different scoring criteria.

We reported our work under UOR to the Council's Audit Committee in December 2009, the key findings are set out overleaf.

UOR Scores

1 - below minimum requirements - inadequate
 2 - at minimum requirements - adequate
 3 - consistently above minimum requirements - performing well
 4 - well above minimum requirements - performing strongly

Theme	Description	Assessment
Managing finances	This theme focuses on assessing whether the Council has sound strategic and financial management, that is, whether it plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance, and whether its financial reporting is timely, reliable and meets the needs of its population.	2
Governing the business	This theme focuses on strategic commissioning and good governance, in particular how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people.	2
Managing resources	This theme considers areas which have not, previously, been assessed on their own in detail. There are three elements to this theme, but only workforce was assessed in 2008/09. Use of natural resources and strategic asset management are the remaining two themes that will be introduced over the next two years.	1

Within these themes are a number of Key Lines of Enquiry (KLOE). The KLOE's we rated at level 1 (inadequate), which resulted in our except for conclusion were:

- KLOE 1.2 - Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?
- KLOE 2.1 - Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?
- KLOE 2.4 - Does the organisation manage its risks and maintain a sound system of internal control?
- KLOE 3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?

3.4 Key actions for the Council

The Council should, as a matter of priority, focus its attention on those KLOE's scoring level 1, with a view to improve the arrangements to secure at least adequate performance in all areas in future. Our high priority recommendations from our Use of Resources assessment are included at Appendix A.

The following table sets out the key issues that led to the recommendations from our Use of Resources report that relate to the KLOEs scoring level 1.

This table includes both High and Medium priority recommendations.

KLOE/Heading	Key issue	Recommendation
KLOE 1.2 Value for money studies	The Council has carried out some Value for Money studies and profiles, however this requires further development, for example by integrating VFM at the service level through performance management.	The Council should integrate VFM into performance management. (High)
KLOE 1.2 Whole life costing	Whole life costing has been used, however a more comprehensive and consistent approach needs to be developed and used where applicable.	The Council needs to develop a comprehensive and consistent approach to whole life costing, where applicable, and ensure that this is embedded in its business case and project evaluation tools. (Medium)
KLOE 1.2 and 1.3 Integrate financial performance data with service performance	The Council's arrangements for financial and performance monitoring are currently separate.	The Council needs to improve and integrate its financial and performance management reporting in order. (Medium)
KLOE 2.1 Benchmarking unit costs	Some benchmarking is used, however the Council needs to further develop its arrangements to more effectively conclude upon and respond to variations between its own performance and other councils' unit costs and comparative performance.	The Council needs to conclude clearly and respond to its unit costs and benchmark performance against peer authorities. (Medium)
KLOE 2.1 Commissioning framework	The Council does not fully apply the principles of commissioning process: in particular post contract implementation and review is not fully evident.	The Council needs to develop a commissioning approach to public services, showing full consideration of public need, evaluation of appropriate delivery options and post implementation reviews to understand and demonstrate the positive impact it has for the local populace. (Medium)

This table includes both High and Medium priority recommendations.

KLOE/Heading	Key issue	Recommendation
KLOE 2.4 Internal control environment	Only 20% of Internal Audit reports are produced within 4 weeks following fieldwork internal control. There were also internal control weaknesses that led to 'limited' Internal Audit opinions on a number of key systems, including: Best Value Performance Indicators, payroll, cash, council tax, sundry debtors, and housing benefits.	Recommendations on the internal control environment were incorporated into our interim and final accounts report and will not be repeated here. Of pressing need is to: <ul style="list-style-type: none"> • improve the effectiveness and impact of internal audit reporting; • further develop anti-fraud and anti-corruption arrangements • strengthen internal controls to ensure no limited or no assurance opinions are given on the key financial systems by Internal Audit (High)
KLOE 3.3 Skills gap analysis	The Council conducted a skills gap analysis in 2007. However this was poorly responded to and a further analysis is planned for 2009. The Council is therefore unable to demonstrate that the workforce is fully skilled to carry out its work and contribute to the achievement of priorities.	The Council needs to conduct a thorough skills gap analysis and ensure training needs are met. (Medium)
KLOE 3.3 Workforce plan	Workforce planning requires further development to fully reflect service and corporate plans, with supporting data on the workforce to be cleansed during 2009/10.	The Council needs to develop a workforce plan that is aligned to corporate and service plans. (High)

3.5 Looking ahead to 2009/10

We agreed our indicative 2009/10 audit fee with the Council in March 2009. The focus of our work in 2009/10 will be to support the Council's transition to International Financial Reporting Standards and to further develop its Use of Resources.

We will present our 2009/10 Audit Plan to the Audit Committee in due course, however, the following provides a short summary of the key risks we aim to address.

Effective governance

Local authorities are required to review their governance arrangements against the Governance Framework and prepare an Annual Governance Statement which publicly reports the effectiveness of the authority's governance arrangements.

An effective Audit Committee is a cornerstone of good governance. The outcome of its work can demonstrate to stakeholders that the Council's affairs are being conducted in an environment of openness, honesty and integrity. The main objective of the Audit Committee is to independently contribute to the assurance framework that an effective internal control system is maintained.

We will conduct an effectiveness review of the Audit Committee followed by a workshop with your Audit Committee to evaluate the processes behind the Annual Governance Statement and overall governance arrangements in place at the Council.

Internal Audit

We will conduct a high level effectiveness review of Internal Audit to assist its professional development, the delivery of its Annual Plan and impact on the Council's internal control environment.

International Financial Reporting Standards (IFRS)

From 2010/11 the Council is required to produce its accounts under IFRS. We are pleased to note that the Council are making positive steps towards conversion and is working in partnership with other Council's locally. The Council reported the potential implications of IFRS to the Audit Committee in September 2009, and has assigned an officer to lead on the restatement exercise.

Our IFRS credentials ensure we are well prepared to assist the Council through this transition, and we will continue to work with your finance team to ensure the process is as smooth as possible.

A High priority recommendations

We raised the following high priority recommendations in 2008/09.

Report (and issue date)	Recommendation
Interim report (June 2009)	Internal Audit should monitor closely monitor the report turnaround time to ensure any control weaknesses are rectified swiftly.
Interim report (June 2009)	The reconciliation of the receivables report from the FMS system to the ledger should be performed more frequently to allow any issues to be raised and investigated on a timely basis.
Interim report (June 2009)	Payroll, National Insurance and PAYE should be reconciled to the ledger on a consistent and frequent basis.
Final accounts report - ISA260 (September 2009)	The Audit Committee are required to confirm that it is satisfied that the accounting policies adopted by the Council are the most appropriate for the Council, as required by <i>FRS 18 Accounting Policies</i> .
Use of Resources - December 2009	The Council should implement a systematic approach to VFM studies.
Use of Resources - December 2009	The Council should complete its action plans to improve risk management of data quality
Use of Resources - December 2009	Of pressing need is to: <ul style="list-style-type: none"> • improve the effectiveness and impact of internal audit reporting; • further develop anti-fraud and anti-corruption arrangements • strengthen internal controls to ensure no limited or no assurance opinions are given on the key financial systems by Internal Audit
Use of Resources - December 2009	The Council needs to develop a workforce plan that is aligned to corporate and service plans.

B Responsibilities of the external auditors and the Council

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas that involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. 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.

This report is part of a continuing dialogue between the Council and ourselves and is not, therefore, intended to cover every matter which came to our attention. For this reason we do not accept responsibility for any reliance that third parties may place on it. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices. The Council is asked to note that our audit should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist.

C Fees and audit reports

The table below compares the actual fees charged for out work in 2008/09 compared to the budgeted fees as set out in our revised Audit Plan.

	Budgeted (£)	Actual (£)
Audit of accounts	89,400	89,400
Use of resources	41,900	41,900
Total audit fees	131,300	131,300
Certification of grants and claims	24,433 ¹	24,433 ¹
Total fees	155,733	155,733

(estimate)

We also set out the reports we have issued during 2008/09 in the table below.

Planned output	Planned delivery	Actual delivery
2008/09 Audit plan	June 2008	June 2008
Interim Audit Report	June 2009	June 2009
2008/09 ISA260 report to those charged with governance	September 2009	September 2009
Use of resources report	November 2009	December 2009
Annual Audit Letter	December 2009	December 2009

¹ This is the actual fee for 2007/08

D Completion of the Audit Plan

The table below sets out the key risks in our 2008/09 Audit Plan (March 2008) and how these were addressed and reported through the course of our work.

Area as reported in the Audit Plan	Audit response and outcome
<p>Use of Resources Comprehensive Area Assessment (CAA) will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. The 2009 Use of Resources assessment will be aligned to CAA and the updated Key Lines of Enquiry (KLOEs) represent an enhanced challenge to the Council in terms of performance and evidence. This assessment will be funded from the 2009/10 audit fee.</p>	<p>We completed the final Use of Resources assessment under the old framework. The Council achieved a level 2, overall score. We subsequently held a workshop at our offices, followed by regular meetings with the senior management team, to discuss with the Council the emerging requirements under CAA. Finally, as reported in Section 3 above, we completed the Use of Resources assessment under the new framework.</p>
<p>Effective governance and scrutiny arrangements Councils are required, for the first time, to produce an Annual Governance Statement. The Annual Governance Statement will be prepared in the financial year 2008/09 but will relate to, and be included in the 2007/08 Statement of Accounts.</p>	<p>We examined the Annual Governance Statement as part of our audit on the Council's 2008/09 Statement of Accounts. We did not note any significant matters.</p>
<p>Job Evaluation The Council is currently in the process of completing a job evaluation exercise of all Council staff. It is expected that the outcome of job evaluation is likely to increase the overall cost base of the Council when fully implemented.</p>	<p>We discussed the progress in this matter throughout the year and agreed the appropriate accounting treatment with the Council in advance of the 2008/09 financial year end.</p>
<p>Medium-term financial management To set a balanced budget, the Council continues to face a number of financial pressures to reduce its cost base. The Council will need to make difficult financial decisions, which may impact on service delivery.</p>	<p>As part of our work on managing finances we considered the robustness of the medium term financial plan. The Council will continue to face financial pressures over the medium term as demands on public services is expected to increase, whilst income levels are expected to fall.</p>

Area as reported in the Audit Plan	Audit response and outcome
<p>Internal Audit The Council's internal audit function is key in ensuring that the Council operates a sound system of internal controls.</p>	<p>We considered the work of Internal Audit as part of our assessment of the internal control environment and to assist in documenting the key financial controls in place. Our findings were reported to the Audit Committee in June 2009.</p>
<p>2008 SORP The 2008 SORP will identify further changes in the transition to International Financial Reporting Standards (IFRS).</p>	<p>We held an accounts planning workshop with the Council that discussed the implications of the 2008 SORP and other local risk factors.</p>
<p>International Financial Reporting Standards (IFRS) Local government accounting will eventually follow IFRS for the compilation of its statement of accounts.</p>	<p>We met with the Council and discussed progress on IFRS routinely through the year.</p>
<p>2007/08 Statement of Accounts The Council's 2007/08 Statement of Accounts is not required to be presented until 30 June 2008. To date we have not conducted any work on the Council's accounts and as such do not yet have the audit knowledge and experience to positively comment on either the effectiveness of the Council's closedown procedures or quality of the Financial Statements.</p>	<p>Following the completion of the 2007/08 audit of accounts we incorporated updated our risk assessment of the Council's financial reporting processes.</p>
<p>Whole of Government Accounts (WGA) We believe that the 2008/09 WGA consolidation pack will no longer need to be produced in accordance with the International Financial Reporting Standards (IFRS). We believe this has been deferred to 2009/10, however we will inform the Council of any future changes.</p>	<p>We reviewed and reported on the Council's WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The pack was certified on 12 November 2009, after the due date of 1 October 2009.</p>



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