

Annual Audit Letter

Hertfordshire County Council

Audit 2008/09

November 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

This report summarises the findings from my 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess the way in which you use your resources.

Accounts

- 1 The Council is required to produce three sets of accounts by 30 June annually and I am responsible for issuing an audit opinion on these by 30 September. In my audit opinion I state whether the accounts present fairly the financial position at 31 March. My opinion is either unqualified - where the accounts present the financial position fairly, or qualified - where I have not received enough assurance that the accounts do present fairly.
- 2 The Council met the deadline for approving its 2008/09 accounts and I issued my opinions on 30 September 2009. The following table summarises the opinions I have issued on the 2008/09 accounts.

Table 1 Audit opinions 2008/09

Accounts	Audit opinion
County Council's accounts	Qualified
Local government pension fund accounts and annual report	Unqualified
Fire-fighters' pension fund accounts	Unqualified

- 3 My opinion on the Council's accounts was qualified due to uncertainty about the land and buildings figures included within them. This was because of concerns about the completeness and accuracy of the fixed asset records which underpin these figures. A similar qualification was issued on the 2007/08 accounts in April 2009.
- 4 Although I recognise that the Council has undertaken a significant amount of work to correct its records, my audit continued to identify errors in respect of individual assets, which led to my overall uncertainty about the total assets figure.
- 5 I have made a number of recommendations in my annual governance report (reported to the Audit Committee on 30 September 2009) which must be actioned in order to correct the asset records and allow the accounts to present fairly the Council's land and building assets in future years. Officers are working on this over next few months with the aim of presenting reliable asset figures in the 2009/10 accounts.

- 6** I also reported on the practice of the Council pooling Pension Fund surplus cash with its own surplus cash and investing the combined amount (co-mingling of funds). The Council invested the co-mingled funds on the money markets attracting interest at a set rate. The Council reimbursed the Pension fund for its element of the co-mingled funds at a rate lower than it was achieving on the total invested funds, retaining the 'premium' for itself. This issue has been raised nationally with the Audit Commission and, whilst it is understood to be common practice amongst many councils, the legal advice received by the Audit Commission indicates that this practice is unlawful.
- 7** The Council has agreed to change the way in which it manages the Pension Fund's cash from 2009/10 onwards.
- 8** An enhanced accounting framework (International Financial Reporting Standards) is to apply to all councils' accounts in 2010/11. The Council has developed a project plan to implement these new standards but it needs to ensure that it has sufficient resources to do this, taking into account the work required on fixed assets.

Use of resources and value for money conclusion

Use of resources

- 9** I assessed how well the Council made use of the resources at its disposal to provide local services. I also assessed the Fire and Rescue Service. A national framework applied to my assessment, with a score given between 1 (inadequate and below minimum standards) and 4 (performing strongly) in each of three key areas. The scores are shown in the table below.

Table 2 Use of resources scores

Theme	County Council	Fire and Rescue Service
Managing finances	2	3
Governing the business	3	3
Managing resources	3	3
Overall score	3	3

Note: 1 – lowest, 4 - highest

- 10** Both the Council and the Fire and Rescue Service are performing well. However the Council scored a level 1 for financial reporting, which is part of the 'managing finances' theme. This was due to the qualification of the accounts.

Key messages

Value for money conclusion

- 11** Based on the results of my use of resources assessments, I issued a conclusion on whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.
- 12** Because of the issue noted above in paragraph 3, I assessed that the Council did not have adequate arrangements in place for producing its accounts. Because of this, I issued a qualified value for money conclusion. This stated that in all significant respects the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except that it did not put into place adequate arrangements for financial reporting.

Other supporting work

- 13** In order to support the use of resources judgements and value for money conclusion, I reviewed arrangements for partnership working between public sector bodies generally across Hertfordshire, and also looked specifically at how health inequalities are being managed. In both cases I found that arrangements are in place but more could be done to address the issues and use the combined resources within the County to better effect.

Managing performance

- 14** The Audit Commission also assesses how well the Council and the Fire and Rescue Service manage and improve services and contribute to wider community outcomes. The assessment considers how successful the Council and the Fire and Rescue Service are in delivering corporate priorities. The priorities have been drawn from what matters most to the local people. The scores and summary findings are shown in Table 3. The scoring mechanism is the same as for use of resources above.

Table 3 **Managing performance scores**

	Score	Overall findings
County Council	3	There are high levels of satisfaction amongst residents, especially with Hertfordshire as a place to live and people's sense of the value for money they are getting. This is because the Council delivers good services in a challenging environment. It manages its performance well, and ensures that it provides the services which residents need. However, people feel that they cannot influence the decisions that are made in Hertfordshire and engagement with the community is weak.

	Score	Overall findings
Fire and Rescue Service	3	<p>The Fire and Rescue Service is working effectively with local communities and is increasingly targeting advice and support where it is needed most.</p> <p>Performance statistics are good and show sustained improvement. For example target attendance times are met more than 92 per cent of the time and protection work has resulted in a decrease of 10 per cent in fires in non-domestic properties compared to 2007/08.</p> <p>The Service is improving its data quality and internal systems. It has a programme to tackle unfair treatment and inequality and is seeking to make its service more representative of its community through targeted recruitment. It is strong on emergency planning and local resilience work and is innovative in a number of areas.</p>

Overall organisational assessment

- 15** The use of resources and managing performance assessments are combined to give an overall organisational assessment judgement for the Council and for the Fire and Rescue Service. The Audit Commission has determined that the organisational assessment judgements are as follows.

Table 4 Organisational assessment judgements

	Judgement
County Council	Performs well
Fire and Rescue Service	Performs well

- 16** The Council's and the Fire and Rescue Service's managing performance and organisational assessments, and the overall Comprehensive Area Assessment for Hertfordshire, are being reported separately in more detail by the Audit Commission's Comprehensive Area Assessment Lead for Hertfordshire, Gary Hammersley.

Financial standing

- 17** The last year has seen the country enter a significant economic recession on the back of a global economic crisis triggered by the collapse of a number of high profile international banks.
- 18** The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these will provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.

Key messages

- 19 The Council is responding to this challenge. It is taking action to review the services it provides and how much they cost to consider if they could be delivered more efficiently.
- 20 The Council had £28 million invested in the Icelandic banks which collapsed in October 2008. It has already received £2 million back from these banks and anticipates receiving a further £22 million over the next four years. However, the amount that will be recovered is still uncertain and might be closer to £13.3 million. The Council has prepared for the potential loss by setting aside a £10 million reserve to help it fund any shortfall and to protect the services it provides to residents. It has also reviewed its arrangements for managing its investments in order to be clear about the level of risk it is willing to take in the future.
- 21 The impacts of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area.

Audit fees

- 22 I have not been able to deliver and conclude my audit programme within the fee that I planned. An additional fee of £10,500 will be charged in respect of the work required on the accounts and in dealing with matters raised by local electors. Further details are given in the audit fees section of this letter.

Independence

- 23 As the External Auditor appointed to audit the Council, I have to maintain my independence. I confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Recommendations

- 24 I have made a number of recommendations within my Annual Governance Reports and other reports which have been issued during the year. These are aimed at improving the Council's arrangements and performance. The Council should monitor the implementation of these recommendations.

Financial statements

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

The Council is also the administering authority for the local government pension scheme in Hertfordshire and administers the fire-fighters' pension scheme. It is responsible for preparing accounts for both these schemes.

Audit opinions

- 25** I issued my opinions on the Council's accounts on 30 September 2009, thereby meeting the deadline set within the Accounts and Audit Regulations 2003. I issued:
- a qualified opinion on the Council's accounts;
 - an unqualified opinion on the Local Government Pension Fund accounts; and
 - an unqualified opinion on the fire-fighters' pension fund accounts.
- 26** Before giving my opinions, I reported to those charged with governance on the issues arising from the 2008/09 audit. I reported to the Investment Committee in respect of the Local Government Pension Fund audit on 17 September and to the Audit Committee on 30 September 2009.
- 27** I had no specific matters to report in respect of the fire-fighters' pension fund but I did report matters in respect of the Council's accounts and the Local Government Pension Fund accounts.

The Council's accounts

- 28** The audit identified weaknesses in respect of capital accounting and recording of fixed assets. The Council's asset registers in support of the accounts did not accurately record all the assets the Council owned. I considered that this might result in a material error in the accounts. This led to my opinion on the accounts being qualified. The 2007/08 accounts were also qualified for this reason.
- 29** During the final stages of the 2007/08 audit, the Council undertook a reconciliation between the corporate property database and the fixed asset registers in order to demonstrate that there were no significant variations between the two records. This reconciliation was completed in March 2009 and highlighted that there was significant variation between the records totalling £283 million. Both records needed a number of adjustments to bring them into line. The results of this reconciliation led to amendments within the 2007/08 accounts but these were not audited at that time.

Financial statements

- 30** I planned work on the reconciliation during the 2008/09 audit so that I could gain the necessary assurances that the opening balances in the 2008/09 accounts were fairly stated. However, the audit work identified that there continued to be a number of errors and uncertainties within the land and building figures and the risk of material misstatement remained.
- 31** I determined that the best course of action was to issue a qualified opinion at 30 September rather than to continue with an audit programme to try to resolve the uncertainty by a revised deadline. I considered that this would involve substantial auditor and officer time and hence additional costs, with no certainty of success in the extension period. I was also aware that the Council was implementing a new asset management system. Concluding my work at the end of September would afford officers as much time as possible to resolve the issues for the 2009/10 accounts. This view was accepted by the Audit Committee and I issued a qualified opinion.
- 32** The Council is now in the process of implementing the new integrated asset management system. An extensive data cleansing exercise is also being carried out to ensure that the new system is loaded with accurate data about the Council's asset base. I propose to review this work during the 2009/10 audit, in order to gain assurance over the opening position on the new system.
- 33** Last year's annual governance report and annual letter also referred to an inadequate standard of working papers in some areas and delays in responding to audit queries. With the exception of fixed assets, the working papers and overall arrangements supporting the preparation and audit of the financial statements have improved this year. However, there remain areas where the audit trail between figures in the accounts, the general ledger and the supporting working papers require improvement.
- 34** I made a number of recommendations in my annual governance report to address these and other matters. Officers have responded with an action plan and the Audit Committee will monitor progress.

The Pension Fund accounts

- 35** The Pension Fund accounts and working papers continued to be of good quality and audit queries were dealt with promptly and appropriately. There were no significant adjustments needed to the accounts but I did report on the matter of 'co-mingling' of surplus funds.
- 36** This is the practice for an administering authority to 'pool' pension fund surplus cash with its own surplus cash and to invest the combined surpluses. The legality of this practice has been reviewed recently, particularly where the interest has been paid to the pension fund at a lower rate than the administering authority earned on the combined investment. There is no lawful basis for administering authorities to retain a premium on the investment of pension fund monies.

- 37** Such an arrangement operates between Hertfordshire Pension Fund and Hertfordshire County Council. The Fund is paid at a lower rate on its investment than the Council earns. At 31 March 2009 the Council held cash to the value of £79 million on behalf of the Pension Fund and the Pension Fund received £2.2 million in interest during the year on that cash. The difference between the investment income paid to the Fund and the actual rates earned by the Council for 2008/09 was in the region of £0.48 million.
- 38** In my annual governance report I recommended that:
- the Council paid the Pension Fund the additional £0.48 million;
 - from 2009/10 the Council pays the Pension Fund interest in full on money invested on its behalf; and
 - a separate bank account is set up for the Pension Fund, through which the investment of surplus cash can be made.
- 39** The Investment and Audit Committees declined to make the additional payment to the pension fund for 2008/09 on the basis that it was not material but did agree to paying the Pension Fund full interest from April 2009 and establishing separate bank accounts from April 2010.

International Financial Reporting Standards

- 40** International Financial Reporting Standards (IFRS) will be introduced for local government in the 2010/11 accounts and will require the comparative figures for 2009/10 to be restated into the new accounting format. This change is significant in a number of respects, particularly in the accounting for fixed assets and leases. A great deal of work will be required in the run up to preparing the 2010/11 accounts in order to establish and collect the information required and to account for it under the new accounting standards.
- 41** The Council has developed a project plan and has set up a small working group to prepare for the changes. However, the capacity of finance staff to take on this new challenge is limited by the more immediate requirement to resolve the fixed asset issues in time for the 2009/10 accounts. The Council will need to keep progress on IFRS implementation under review and ensure that appropriate resources are allocated to it to ensure successful implementation.

Value for money and use of resources

I considered how well the Council managed and used its resources to deliver value for money together with better and sustainable outcomes for local people, and gave a scored use of resources judgement. I also carried out a separate assessment for the Fire and Rescue Service.

I also assessed whether the Council as a whole put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 42** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 43** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.

Council assessment

- 44** The Council's use of resources theme scores and key findings were set out in my Annual Governance Report but are summarised in the table below. I have provided a more detailed report of my findings to officers.
- 45** The Council performs well in most of the areas assessed within the new and harder use of resources framework, which is reflected in the overall score of 3 derived from the theme scores. However performance in financial reporting is inadequate because the accounts have been qualified.

Table 5 Use of resources summary- County Council

Theme: Managing finances		Level 2
Financial planning	Level 3	Integrated corporate and financial planning aid the delivery of strategic priorities. Resource allocation has followed key priorities. Financial health is sound.
Costs, performance and efficiencies	Level 3	A good understanding of costs and performance enables the Council to make efficiencies. Robust decisions are based on sound information which includes clear cost/benefit and risk analysis.
Financial reporting	Level 1	Financial reporting is effective in terms of budget monitoring and performance reporting. External reporting on the Council's activities is timely and accessible. However, the financial statements continue to show significant weaknesses in fixed asset recording and accounting, leading to a qualification for the second year. For this reason, we have assessed that financial reporting arrangements are not adequate.
Theme: Governing the business		Level 3
Commissioning and procurement	Level 3	The Council has a good understanding of the needs of its community which supports its commissioning and procurement processes. The Council understands the supply market and has identified opportunities for joint commissioning thus leading to improved outcomes for local people.
Data quality	Level 3	Data quality is sound and underpins good quality and user - friendly performance reporting, which is part of the good and improving performance management process. The Council has demonstrated that performance has improved as a result.
Good governance	Level 2	The Council has the mechanics of good governance in place. It maintains focus on its purpose and vision through the performance management framework. There are strong working relationships between members and officers.
Risk management and internal control	Level 3	The Council effectively manages risks and has demonstrated innovative risk management. There is a strong counter-fraud and corruption framework in place. The system of internal control is generally sound. Control weaknesses in respect of fixed asset recording and accounting remain but action is ongoing to address these.
Theme: Managing resources		Level 3
Natural resources	Level 3	The Council is taking a strategic approach to reduce its use of natural resources and its impact on the environment. Reducing carbon emissions is a key priority. The Council works actively in partnership to manage its performance and reduce its impact on the environment.
Strategic asset management	Level 2	Arrangements for strategic asset management are generally strong and this has been recognised externally as the Council has won a number of awards. However, our audit identified ongoing problems with the maintenance of property asset databases, which casts some doubt over whether the Council has accurate data for use in asset management.

Value for money and use of resources

Fire and Rescue Service Assessment

- 46** The Fire and Rescue Service's use of resources theme scores are shown in the table below. The Fire and Rescue Service also performs well and has achieved an overall score of level 3.
- 47** The Fire and Rescue Service shares many systems, processes and arrangements with the County Council. Consequently the findings are comparable with those of the County Council except that financial reporting has been scored at level 2. The Fire and Rescue Service does not produce a separate set of accounts and would normally have the same score as the Council. However the difficulties with the accounts are not specifically related to the Fire and Rescue Service and therefore its score for financial reporting has not been marked down. This distinction means that the Fire and Rescue Service has a higher score for managing finances than the Council.

Table 6 Use of resources summary- Fire and Rescue Service

Theme: Managing finances		Level 3
Financial planning	Level 3	The FRS can demonstrate where resource allocation has followed key priorities and the benefits for local communities derived as a result.
Costs, performance and efficiencies	Level 3	The FRS is a high performing low cost service and has a good understanding of costs and external factors, allowing decisions to be made on sound information, which includes wider implications such as social and environmental impact.
Financial reporting	Level 2	Financial reporting arrangements are common across the Council including the FRS. Budget monitoring and financial and performance reporting arrangements are effective. The FRS does not produce separate accounts but it does produce good quality working papers and contributes to the overall accounts.
Theme: Governing the business		Level 3
Commissioning and procurement	Level 3	The FRS has a good understanding of the inequalities and diversity of its local community and their needs. It has a robust commissioning and procurement process, is involved in procurement consortia and uses benchmarking to identify areas for improvement and financial savings.
Data quality	Level 3	The FRS has well embedded performance reporting to members and officers. Reporting is timely, user-friendly and highlights performance against strategic priorities and targets. Arrangements will be further strengthened in 2009/10. Data quality is good and improving. Our spot check work on performance indicators identified issues with sickness absence recording which the FRS were already aware of.
Good governance	Level 2	The mechanics of good governance are in place. The FRS maintains focus on its purpose and vision. It knows its local community and responds to its needs. There are strong working relationships between members and officers.
Risk management and internal control	Level 3	The FRS operates within the Council's risk management framework and has integrated risk management with financial planning and performance management. There is a strong counter-fraud and corruption framework and compliance with internal controls put into place by the Council.

Theme: Managing resources		Level 3
Workforce planning	Level 3	<p>The FRS provides a good range of training and development opportunities to respond to gaps in skills identified through its Performance Management Development System. Workforce planning is aligned to service and financial planning with resources located on a risk basis. Managers are trained to deal with organisational change and there is good communication with staff and trade unions.</p> <p>The FRS reviews its workforce profile against that of its community on an annual basis and has agreed stretch targets to increase the numbers of females and BME operational staff by 2012. Through the Council it has achieved Level 3 of the Equalities Standard.</p>

VFM Conclusion

- 48** I assessed the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 49** This conclusion is given in respect of the Council's arrangements covering all its operations, including the Fire and Rescue Service, and therefore takes account of the results of that separate assessment.
- 50** I identified weaknesses in the Council's arrangements for producing the annual accounts due to the issues with fixed asset records and accounting as set out in my annual governance report and summarised in this letter.
- 51** I therefore issued a qualified conclusion stating that in all significant respects the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except that it did not put into place adequate arrangements for financial reporting.

Specific risk-based work

- 52** I carried out the following specific pieces of work to provide me with assurance for my use of resources assessment.
- A review of partnership arrangements in Hertfordshire.
 - A follow up of my 2007/08 health inequalities report and recommendations.

A review of partnership arrangements in Hertfordshire

- 53** Hertfordshire Forward (the County wide Local Strategic Partnership) and the Audit Commission both identified the need to examine the approach to strategic partnership work in Hertfordshire. To avoid duplication, and ensure that the work reflected local issues, the Audit Commission and officers from Hertfordshire Forward (HF) worked closely together to coordinate the project and deliver the findings. Government Office (East of England) also actively supported the work.

Value for money and use of resources

- 54** The organisations participating in this audit were the County Council, the ten district or borough councils, the two Primary Care Trusts (PCTs), Hertfordshire Police, Hertfordshire Probation Service, the Fire and Rescue Service and the Voluntary and Community Sector.
- 55** The purpose of this audit was to examine whether partnership working between strategic partners achieved effective outcomes by appropriate means. In particular, it looked at the culture of partnership working between tiers of local government and between sectors in Local Strategic Partnerships. This was structured around nine themes: membership; clarity of purpose; relationships; representation; engagement; commitment; performance management; ambition and thematic groups.
- 56** The review was completed over five stages and involved an online survey, telephone interviews and a participative workshop.
- 57** Key conclusions were as follows.
- There was evidence of strong commitment and willingness to work together with a range of examples of where partnership working has produced successful outcomes. However, there was a general lack of clarity about the roles and functions of partnership structures, how partnerships link together and their composition which impeded the ability to work across sectors and partnerships.
 - Whilst there were some examples of performance monitoring in partnerships, performance management was generally underdeveloped. There was an overall consensus that there was not a consistent performance management system across all partnerships. Priorities were generally not underpinned by SMART targets, except those expressed in the Local Area Agreement. There was very little awareness of how other partnerships were performing. It was also not clear who the different partners were accountable to and how they could collectively demonstrate that they had achieved their priorities.
 - Many partners expressed concern about the capacity to resource partnership working. This suggested that tasks from partnerships were seen as additional workload rather than integral to their organisation's priorities. This in turn pointed to the need for greater correlation between partnership and organisational priorities and the need to ensure partnership priorities were resourced.
- 58** High level recommendations were made to all partners to:
- improve the effectiveness of partnership working by moving from working alongside one another to working and delivering together;
 - develop accountability and representation;
 - develop engagement and communication; and
 - enhance performance management arrangements.
- 59** It is expected that progress against these recommendations will be monitored by Hertfordshire Forward and we will be undertaking a formal follow up during 2010.

Health inequalities follow up

60 In 2007, we undertook a review across the East of England to examine how well partners in each county were tackling health inequalities. The aim of this work was to explore how well local authorities, PCTs and the voluntary sector were working in partnership to address health inequalities, what evidence there was of local partners reducing health inequalities and how partners were progressing action to achieve/improve on targets. Our review in Hertfordshire identified that a lot of effort was being made to tackle inequalities at a local level but that the impact of this work was not always effectively measured.

61 Our follow up work during 2009 identified that:

- although the building blocks were in place, partners had not yet implemented a cross-cutting and cross-sector approach to addressing health inequalities but it was acknowledged that health inequalities issues were recognised in other documents;
- strategies and plans at County level were based on clear and comprehensive data about health needs, and there was a clear move to engage GPs in the health inequalities agenda; and
- despite the strategies and plans, joint action to tackle health inequalities had not been developed at County level, including performance management systems.

62 We will continue to monitor progress in tackling this significant agenda.

Financial standing

- 63** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. I have reflected on the wider environment, specific issues and risks and the Council's response.
- 64** Though the economic downturn is presenting specific issues and risks to the Council, I am satisfied that it is taking appropriate steps to respond to this. However, this is an area I will continue to consider closely when assessing how well the Council makes use of its resources during my 2009/10 audit.

Financial position

- 65** The Council manages finances effectively as demonstrated by its use of resources scores. It maintains sound financial health and delivers good value for money. The Council's strong financial position is supported by an effective efficiency programme; savings of £13.5 million were achieved in 2008/09 without adversely affecting service standards. However, despite this level of savings, the Council is not hitting the 3 per cent National Indicator (NI) 179 target, which was £17.3 million in 2008/09. This is a cumulative three year target which means the Council must make up the shortfall in future years. This, combined with cost pressures and the expected squeeze on government grant funding, means that the Council is facing a significant financial challenge.
- 66** The current position regarding the major funds is shown in the table below. This indicates that the Council was able to increase its levels of reserves in 2008/09 which will help it deal with future challenges.

Table 7 Summary of major balances as at 31 March 2009

	As at 31 March 2009 £ million	As at 31 March 2008 £ million
General Fund Balance	36.5	26.2
Specific reserves*	61.2*	52.9*
Totals*	97.7*	79.1*

*excluding schools' balances and PFI equalisation reserve

- 67** The Council sets a minimum level of balances in order to cover potential financial risks that may arise during the year. For 2009/10 this level has been set at £20.1 million. The 2009/10 budget included the use of £10 million from reserves in order to support the budget, as a result of the current economic downturn and the resulting additional cost pressures, including those arising from falling capital receipts and low interest rates.
- 68** Through its Integrated Planning Process the Council is carrying out a number of initiatives in order to evaluate its activities and review its income, expenditure and value for money. This is being done through means such as the Hertfordshire Pathfinder project and the 'Deliver Efficient Corporate and Transactional Services' programme. Through these initiatives the Council is looking at how services are provided and resourced to identify potential streamlining and savings.

Icelandic banks

- 69** The Council had £28 million invested in four Icelandic banks when they collapsed in October 2008. The 2008/09 accounts showed that the Council expected to recover £22.1 million based on information available at the time the accounts were produced.
- 70** To date the Council has received repayments of £2 million from two of the banks and expects to receive a further £22 million between 2009 and 2013. This would therefore result in a loss of £4 million on the original investments. However this is based on local authorities being granted preferential creditor status and therefore receiving a higher recovery rate than other creditors. If this status is not granted, the Council's expected recovery might fall to approximately £13.3 million. This would mean a total loss of £14.7 million.
- 71** The Council has established a reserve of £10 million (included in the specific reserves in table 7 above) to help deal with any future loss of the sums invested. Statutory regulations also allowed local authorities to defer the impact of the loss on the general fund. This means that the Council will not have to recognise the loss until 2010/11.
- 72** The Council identified that part of the amount invested with these banks had been placed in July and August 2008 in breach of the Council's 2008/09 investment policy. It commissioned PriceWaterhouseCoopers to investigate the circumstances in which these investments were made and to review treasury management arrangements more generally. The Council has acted on the recommendations of these reviews and has also taken into account the findings and recommendations of CIPFA and the Audit Commission.
- 73** The new treasury management framework explicitly details the level of risk the Council is willing to take with its investments and the balance it wants to achieve between security and the return on the investments. Treasury management activity is reported to the Cabinet on a quarterly basis. The treasury management function is appropriately resourced and the staff have access to an appropriate level and range of information and external treasury management advice.

Audit fees

- 74** The actual audit fee is higher than planned, as outlined in the table below.
- 75** Following the completion of the 2007/08 audit earlier this year, I increased the audit fee in order to address the risks arising from the 2007/08 audit and some other new risks arising. I stated that I would keep this fee under review as the audit progressed in case further revision was necessary.
- 76** My plan envisaged that a significant programme of audit work would be required in order to clear the fixed asset issues from the prior year but that this would be completed satisfactorily. This has not been the case as my audit work raised further queries, which were not allowed for in my revised fee. I have also responded to a number of matters raised with me by local residents (challenge work), which were not included within my planned fee due to their nature.
- 77** The fee for certification of grant claims is estimated as this work is currently in progress.

Table 8 Audit fees

	Actual	Proposed	Variance
Council audit			
Financial statements and annual governance statement	215,181	206,181	9,000
Use of resources	45,219	45,219	
Data quality	22,729	22,729	
Whole of government accounts	5,576	5,576	
Total Council audit fees	288,705	279,705	9,000
Pension Fund audit			
Financial statements	50,500	50,500	
Total Pension Fund audit fees	50,500	50,500	
Other fees			
Certification of claims and returns	55,000 (estimated)	55,000	
Challenge work	1,500	nil	1,500
Total fees	395,705	385,205	10,500

Closing remarks

- 78** I have discussed and agreed this letter with the Chief Executive and the Director of Resources and Performance. I will present this letter at the Audit Committee on 3 December 2009 and will provide copies to all Members.
- 79** Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Council during the year.

Table 9 Reports issued

Report	Date issued
Audit and inspection plan	July 2008
Supplementary audit plans (Council and pension fund)	June 2009
Review of partnership arrangements in Hertfordshire	May 2009
Health inequalities follow up	July 2009
Annual governance reports (Council and pension fund)	September 2009
Opinions on financial statements	September 2009
Value for money conclusion	September 2009
Use of resources report (Council)	November 2009
Use of resources report (Fire and Rescue Service)	November 2009
Data quality spot checks (Fire and Rescue Service)	November 2009
Annual letter	December 2009

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

Availability of this letter

- 81** This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website

Mark Hodgson
District Auditor
 November 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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