



Hertsmere Borough Council

Annual Audit Letter 2008/09

December 2009

Contents	Page
1 Introduction and key messages	1
2 Audit of accounts	3
3 Use of resources	6
4 Certification of claims and returns	10
5 Closing remarks	12
Appendix A 2008/09 reports issued	13
Appendix B Audit fees 2008/09	14

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 Hertsmere Borough Council ('the Council') during our 2008/09 audit. The Letter is written in an accessible style, designed to communicate our key messages to the Council and external stakeholders, including members of the public. The Letter will be published 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 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.
- 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 In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide certificates on the accuracy of grant claims and returns to various government departments and other agencies.
- 1.6 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

- 1.7 This Letter covers the audit work we have carried out in 2008/09, including key messages and conclusions from our work in:
- auditing the 2008/09 year end accounts (Section 2)
 - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3)
 - certifying claims and returns (Section 4).

- 1.8 We have not repeated recommendations agreed with the Council during the year in this Letter. A list of the reports issued can be found at Appendix A. Appendix B sets out our actual and budgeted fees for 2008/09.
- 1.9 The findings of our work in 2008/09 contribute towards the Audit Commission's Organisational Assessment of the Council and the Comprehensive Area Assessment for Hertfordshire. The results of this work will be reported separately to the Council by the Audit Commission.

Key areas for Council action

- 1.10 We highlight the following key areas, where the Council should take action in 2009/10:
- The Council should continue its preparations for the introduction of accounting under International Financial Reporting Standards (IFRS), including ensuring that asset valuation procedures are sufficiently robust.
 - The Council should ensure that Internal Audit is adequately resourced to meet its annual plans.
 - The Council should continue to strengthen its partnership arrangements.
 - The Council should ensure that its medium term financial planning takes account of the current economic climate and the likely restrictions in public spending in the short to medium term.
 - The Council will need to continue to closely monitor performance against its 2009/10 budget and ensure that it continues to take appropriate action to manage variations to forecasts without impacting on service delivery.
- 1.11 The context for these key messages can be found in this Letter.

2 Audit of accounts

Introduction

- 2.1 We issued an unqualified opinion on the Council's 2008/09 accounts on 29 September 2009, ahead of the statutory certification deadline. Our opinion confirms that the financial statements 'present fairly' the financial position of the Council.
- 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" (for these purposes, the Audit Committee is designated as "those charged with governance"). We presented our Annual Report to those Charged with Governance to the Audit Committee on 29 September and summarise only the key messages in this Letter.

Audit of the accounts

- 2.3 The Council provided a set of draft 2008/09 accounts on 24 June 2009. Closedown was well managed by the Council and there is clear corporate commitment to producing good quality accounts. The standard of working papers produced by the Finance Team is exemplary and resulted in a smooth audit process and only one adjustment was required to be made to the accounts as a result of an error in compiling the accounts by the Council.
- 2.4 Our audit identified two material misstatements:
- £2m of investments were reclassified from short term investments to long term investments as they fall due over 12 months.
 - The auditors of the pension fund noted that the net assets used by the actuary to calculate the pensions liability was significantly less than that recorded in the Hertfordshire County Council pension fund. This has led to a reduction in the pensions liability and reserve of £903k. The Authority was notified of this amendment after the date of approval of the draft accounts.
- 2.5 Management agreed to process all but one accounting adjustments and the majority of proposed amendments to classification and disclosure to improve presentation of the accounts. The unadjusted error related to rents for industrial lettings related to 2009/10 which had been included within sundry debtors. Our audit procedures indicated that up to £189k of these debtors should have been classified as deferred income. The Council decided not to adjust for this error as the same adjustment would be required for 2007/8 leaving a minimal effect on the income and expenditure account.
- 2.6 The correction of the accounting errors identified in our Annual Report to those Charged with Governance had no impact on the General Fund balance or charges to Council tax payers.

Financial performance

- 2.7 The Council added £14,000 to its Council Fund balance in 2008/9 and has set a balanced budget for 2009/10 and for the period of the current Medium Term Financial Strategy (MTFS). Overall, the Council maintains a healthy level of reserves including a £6.9m General Fund, £12.4m Earmarked Reserves (all ring fenced) and a £13.6m financing reserve (all committed).
- 2.8 The Council reported a deficit of £156k against its budget for the first six months of 2009/10 forecasting a year-end deficit of £305k. One of the main reasons for the variance is forecast income levels not being achieved in areas such as land charges, building control and parking. The Council is addressing its forecast deficit through a number of actions including freezing recruitment into vacant posts in departments where demand for services has declined. The Council has also built into its budget a contingency of £286k which remains unspent and unallocated and which will be used to address any shortfall against the budget at year-end prior to reserves being utilised.

The Council will need to continue to closely monitor performance against its budget and ensure that it continues to take appropriate action to manage variations to forecasts without impacting on service delivery.

Financial systems

- 2.9 We undertook sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that presented a material risk to the accuracy of the financial statements.
- 2.10 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 2008/09 accounts. However, it was noted that the Internal Audit Programme was again not been delivered for the financial year 2008/09 with 368.3 days of chargeable time delivered against a plan of 580 days.. Further it was also noted from review of the annual internal audit report that only two of the nine planned Key Financial Systems audits had a final report issued at the time of our review.

The Authority should take appropriate steps to ensure that Internal Audit is adequately resourced to meet its annual plans.

- 2.11 We 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 could adversely impact our audit of the accounts.

Annual Governance Statement

- 2.12 We examined the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Council. As the AGS must be reviewed and, as necessary, updated as at the date of signing our audit opinion, we reviewed the final version of the AGS as part of our audit completion procedures. We concluded that the AGS was consistent with our knowledge of the Council.

Icelandic Banks - the Council's Response

- 2.13 The Council held a £1m investment with Heritable Bank which went into administration in October 2008. Accounting standards require councils to make their best estimate of any impairment of financial assets. The Council calculated the impairment on its investment in accordance with relevant guidance and, following receipt of updated forecast recoverability information in September 2009, recognised a net impairment of £200k (after taking account future interest) in the 2008/09 accounts.
- 2.14 In light of the Icelandic bank crisis, auditors were requested by the Audit Commission to review the Treasury Management Arrangements in place at councils. Our review demonstrated that the Council has sound arrangements in place. The Council has also revised its Treasury Management Strategy to enable it to respond to changes in the market and as a response to the Audit Commission report on Icelandic investments.

Members' expenses and allowances

- 2.15 Due to the high profile coverage of Parliamentary expenses during 2008/09, we looked at members' and senior officers' allowance and expenses in greater detail than in previous years. Our review of the arrangements in place, found appropriate procedures and controls in operation at the Council.

Looking ahead

- 2.16 We would like to draw to the attention of those charged with governance to further significant changes that will happen to the statement of accounts in future years, the most significant of which is the full implementation of IFRS in the 2010/11 accounts. Although this may seem a long way off, it is important that authorities start planning now, as there will be significant changes to the accounts. Our experience in other sectors shows that audited bodies that are well prepared for the transition to IFRS have fewer amendments to their accounts and are less likely to be charged additional audit fees, than those who are not well prepared.

3 Use of resources

Introduction

- 3.1 We issued our annual VFM conclusion on 29 September 2009, at the same time as our accounts opinion, ahead of the required deadline. We concluded that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
- 3.2 Prior to giving our VFM conclusion, we summarised the basis of this conclusion in our Annual Report to those Charged with Governance, which we presented to the Audit Committee on 29 September 2009. We provide further detail and set out the results of our assessment of the Council against the use of resources framework in our Use of Resources 2009 report. In this Letter we summarise the key messages from this work alongside relevant current findings, and look forward to forthcoming challenges for the Council.

2008/09 VFM conclusion and use of resources assessment

- 3.3 Our VFM conclusion was informed by our use of resources work which, in councils, is based on the Audit Commission's new use of resources (UoR) assessment. The new framework emphasises **outcomes** over **processes**, and brings new areas into the assessment such as environmental management. It presents a more robust challenge than the old framework, based on different scoring criteria. It should be noted, therefore, that changes from prior year scores do not necessarily reflect an objective change in performance.
- 3.4 In order for us to provide an unqualified conclusion, the Council needed to achieve an 'adequate' assessment (score of at least 2) for each component of the UoR assessment.
- 3.5 Our UoR assessment concluded that the Council had at least adequate arrangements in all areas. Therefore, our VFM conclusion was 'unqualified'.
- 3.6 The 2008/09 scores by Key Line of Enquiry (KLoE) area are shown in the table below.

Table 1: UoR scores 2008/09

Scoring scale:

1 - Below minimum requirements - inadequate performance
 2 - Only at minimum requirements – adequate performance
 3 - Consistently above minimum requirements – performing well
 4 - Well above minimum requirements – performing strongly

* Within the Managing Resources theme, in 2008/09, environmental management has the greater weighting and workforce management is not assessed

Theme / KLoE		Score
Theme 1 - Managing finances		3
1.1	Financial planning	3
1.2	Understanding costs	2
1.3	Financial reporting	3
Theme 2 - Governing the business		2
2.1	Commissioning and procurement	2
2.2	Use of data	2
2.3	Good governance	2
2.4	Internal control	2
Theme 3 - Managing resources		2
3.3	Managing natural resources	N/A*
3.2	Asset management	N/A*
3.3	Workforce management	2

- 3.7 We assessed the Council as performing well (level 3) in managing finances. The managing finances assessment reflects particular strengths in the areas of integrated financial and service planning, financial reporting and accounts preparation.
- 3.8 The high priority recommendations arising from our UoR assessment were for the Council to ensure that it:
- has appropriate processes in place that result in effective procurement and contract management;
 - has appropriate protocols in place for sharing and exchanging data with partners;
 - is correctly reporting performance against its national and local performance indicators, for example, by undertaking spot-checks on performance indicators throughout the year to ensure that they are being calculated correctly and in accordance with the agreed methodology for the indicator;
 - completes the development of its Partnership Governance Framework and ensure that the principles are applied to all partnerships that it is involved in; and
 - improves its internal audit service so that it is fully compliant with CIPFA Code of Practice requirements, in particular, delivering the annual plan.
- 3.9 We have proposed a number of recommendations to management to implement these improvements and we will review progress on implementation during the 2009/10 audit.

Review of Performance Management

- 3.10 A review of the Council's Performance Management Framework was completed in September 2008 which concluded that:

'The Council has developed a comprehensive performance management strategy, and detailed processes through which to address underperforming areas. If implemented fully and effectively, these should support further service improvement. Implementation is at an early stage, however, and the current levels of focus and discipline will need to be maintained if the full benefits of new arrangements are to be realised. Key to further improvement is addressing the means by which the Council determines its corporate priorities and allocates resources to them.'

- 3.11 A number of recommendations were made within the report against which the Council should continue to monitor progress to ensure that improvements continue to be made both in respect of its performance management arrangements and consequently in service delivery.

National Fraud Initiative (NFI)

- 3.12 The Audit Commission are in the process of completing an assessment of how audited bodies have addressed NFI. The first stage of this has been our completion of an initial risk assessment on the Council's progress with output from the 2008/09 exercise. We assessed progress via a review of the Council's reports on the NFI website. The result of our review was an 'amber' assessment of the arrangements that the Council currently has in place for following up NFI. This is based on a lack of progress in following up the matches on some of those rated as high risk. At the time of the review in October 2009, only 44% of recommended matches had been opened on the system.
- 3.13 We will continue to monitor the Council's progress and report on any concerns to the Director of Resources, the Internal Audit Manager and Audit Committee as appropriate.
- 3.14 As the next stage of this process the Audit Commission NFI team will monitor progress through management information and evaluation of auditor risk assessments to select bodies for site visits and will also review a sample of bodies' strategic approaches to using information from the NFI. The outcomes from this work will also inform our conclusions on the Council's arrangements for preventing and detecting fraud and corruption and KLOE 2.4 of the Use of Resources assessment.

Looking ahead

- 3.15 We agreed our indicative 2009/10 audit fee with the Council in April 2009. Our initial assessment of local risks did not identify any additional use of resources work to support our VFM conclusion. We are in the process of revisiting this assumption based on the outcomes of the 2008/09 Use of Resources assessment and discussion with key officers of the Council. Any changes will be built into our risk assessment for our 2009/10 plan and be included in our full plan to be issued in December 2009.

4 Certification of claims and returns

Introduction

- 4.1 In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide certificates on the accuracy of grant claims and returns to various government departments and other agencies.
- 4.2 The Audit Commission prescribes our work in this area. Each year, it agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and sets this out in a grant Certification Instructions (CI).
- 4.3 Certification work provides important and valuable assurances to taxpayers over public funds:
- each year, auditors certify £43 billion of public funds
 - since 2004, auditors have found errors of over £0.5 billion in the claims and returns prepared by local authorities
 - the level of the errors found by auditors and corrected by authorities since new arrangements were introduced in 2004 is almost five times the cost of auditors' certification work
 - 10% of claims and returns have been adjusted for errors and 37% have been qualified over the past five years
 - significant amounts of overpaid subsidy are recovered from authorities by grant-paying bodies when action is taken to follow up auditors' qualifications – one grant-paying body has recovered over £63 million in the past three years.
- 4.4 In its national report, "Review of arrangements for certifying claims and returns" (September 2009), the Audit Commission identified that further improvements in performance in preparing and auditing claims and returns are achievable:
- local authorities need to attach greater importance to the preparation of claims and returns to reduce the volume and value of errors made
 - grant-paying bodies should improve their understanding of the certification process
 - auditors need to do more to raise the profile of certification work at the local level and encourage authorities to improve their use of resources.

Key messages

- 4.5 The Council has three grant claims that were subject to certification in 2008/9:
- Disabled Facilities Grant;
 - National Non-Domestic Rates (NNDR) return; and
 - Housing and Council Tax Benefit Subsidy return.
- 4.6 As in 2007/8, all grants claims and returns that required certification were submitted to us on time. All claims were also certified by the required deadline for both 2007/8 and 2008/9.
- 4.7 Both the Disabled Facilities Grant and National Non-Domestic Rates return were certified without amendment. The Housing and Council Tax Benefit subsidy return was qualified in respect of reconciliation differences that could not be resolved. The total financial value of the differences was £390. It should be noted that this issue is as a result of a software problem that the supplier has not yet resolved and our work highlighted no major concerns relating to systems and controls in place to administer and record housing and council tax payments at the Council.

5 Closing remarks

Introduction

- 5.1 This Letter was agreed with the Director of Resources on 16 December 2009 and will be presented to Audit Committee on 6 January 2010.
- 5.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support.

Grant Thornton UK LLP
December 2009

Appendix A 2008/09 reports issued

Report	Date issued
Audit Plan	May 2008
Performance Management Review	September 2008
Use of Resources and Data Quality 2008	December 2008
Audit Strategy Document	June 2009
Annual Report to those Charged with Governance	September 2009
Use of Resources 2009	December 2009
Annual Audit Letter	December 2009

Appendix B Audit fees 2008/09

Audit area	Budget 2008/09	Actual 2008/09
Financial statements, including WGA	53,908	53,908
VFM conclusion/Use of resources/Data Quality	56,167	56,167
Performance Management Review	15,000	15,000
Total Code of Practice fee	125,075	125,075
Certification of claims and returns	20,000	18,703
Total fees	145,075	143,778



www.grant-thornton.co.uk

© 2009 Grant Thornton UK LLP. All rights reserved.

"Grant Thornton" means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd (Grant Thornton International). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication