

Hinckley and Bosworth Borough Council 2008/09 Annual Audit Letter



The Members
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Ladies and Gentlemen

2008/09 Annual Audit Letter

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. A draft of this letter was presented to members of the Finance and Audit Services Select Committee at its meeting on 7 December 2009.

Yours faithfully



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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

Executive summary

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at Hinckley and Bosworth Borough Council that is accessible for members and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance, which in the case of the Council has been previously agreed as being the Finance and Audit Services Select Committee, in the following reports:

- Report on the results of our audit of the 2008/09 financial statements under the requirements of the International Standard on Auditing (ISA) (UK and Ireland) 260 (ISA (UK&I) 260); and
- Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources.

The matters reported here are those that we consider are most significant for the Council.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its Use of Resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Council's Annual Governance Statement;
- forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its Use of Resources; and
- undertaking any other work specified by the Audit Commission.

Our 2008/09 audit work has been undertaken in accordance with the Audit and Inspection Plan issued by the Audit Commission in June 2008.

Summary of significant audit issues

We audited the Council's accounts in line with approved Auditing Standards and issued an unqualified audit report on 29 September 2009.

We did not identify any significant weaknesses in the Council's accounting and internal control systems during the audit.

We are pleased to report that we experienced notable improvements in the accounts preparation and audit process this year.

A question about the 2008/09 financial statements was received by the appointed auditor from an elector. It was determined that no action was required of the appointed auditor in respect of this matter.

The Council already faces a number of financial challenges and there is every likelihood that following the general election in 2010, further significant cuts in public sector expenditure will have to be made. In the context of its medium term financial challenges the Council should continue to focus on the following areas:

- sound financial management and keeping to budgets, in spite of increasing service pressures;
- achieving the significant savings targets identified in the Medium Term Financial Strategy;
- improving and modernising services, making them more efficient and affordable;
- progressing with capital regeneration initiatives and the wider strategic ambitions of the Borough; and
- sound management of the Council's capital programme.

Our work with respect to the Council's Annual Governance Statement, Whole of Government Accounts, Treasury Management and Members' Allowances did not identify any issues to report.

The Council recognises that it has significant work ahead in order to complete its transition to International Financial Reporting Standards (IFRS), and has recently commissioned an impact assessment to ensure that the implications of IFRS are fully understood. It is important that a detailed project plan be put in place to ensure key milestones are met.

The new Use of Resources framework forms part of the Comprehensive Area Assessment (CAA). We evaluated the Council's arrangements against criteria set by the Audit Commission and based upon our assessment the Audit Commission awarded the Council an overall CAA score of 3 (performs well). It is important to note that whilst the scoring system and descriptions are largely unchanged from the previous Use of Resources regime, in practice the change of emphasis from systems and processes to real and measurable outcomes means that it is far more difficult for authorities to achieve the same overall score that they did in prior years under the previous Use of Resources assessment. This represents a strong performance in the first year of CAA for which the Council should be commended.

We issued an unqualified conclusion on the Council's arrangements for its Use of Resources on 29 September 2009.

Audit findings: financial accounts, reporting and financial standing

Accounts

We audited the Council's accounts in line with approved Auditing Standards and issued an unqualified audit report on 29 September 2009.

There were no unadjusted misstatements for us to bring to the attention of members of the Finance and Audit Services Select Committee following our audit.

As might be expected, the audit process identified some issues, regarding both content and presentation, where we believed amendments to the accounts would enhance their accuracy and usefulness to the reader. The net impact of the adjustments made to the accounts was to increase General Fund balances by £7,000 and increase net assets by a corresponding amount.

Accounting issues

We issued our report to members of the Council's Finance and Audit Services Select Committee under International Standard on Auditing (ISA) 260 in September 2009. This report contained one recommendation which is set out below.

Pensions disclosure note

In reviewing the disclosures included in the financial statements we noted that the fair value of employer assets disclosed for the Council's pension scheme differed from the value reported by the Council's actuary. This appeared to arise as a result of the actuary including within total assets an estimate of the full year contributions to the pension scheme made by the Council, whereas the Council had used the actual, lower, amount.

Over the last three years this has resulted in the fair value of employer assets in the pension scheme disclosed at 31 March 2009 being £839,000 lower than the total reported by the actuary.

We were comfortable with the Council's disclosure within the accounts as it was based upon actuals rather than estimates. However, we agreed with the Council that this discrepancy, which is increasing year on year, will be investigated with the actuary to establish why this is the case and take any action that might be necessary as a result.

Systems of internal control

No significant weaknesses in the systems of internal control were identified during our work.

Accounting practices

We reported in last year's report under ISA 260 on the challenges we had faced in completing our audit of the Council's 2007/08 financial statements. Following the completion of the 2007/08 audit we worked closely with management to discuss and agree a series of actions and areas for improvement that would facilitate a better audit experience for both parties in 2008/09. One of our agreed actions was to provide the Council with a list of required working papers prior to the financial statements audit.

We are delighted to report that the working papers the Council provided to us to support the audit of the financial statements were of a good standard and that the Council's finance staff were co-operative and prompt in helping us to resolve, to our satisfaction, any queries that we had during the audit process. We acknowledge that in the previous year, some of the weaknesses in this area were due to lack of staff capacity resulting from the investigation into the Housing Revenue Account Capital overspend. We are pleased to report that we experienced notable improvements in the accounts preparation and audit process this year.

Whilst both parties recognise that the accounts and audit experience has been much better this year than last, both parties equally recognise that there is always room for further improvement. We are keen to continue to work with the Council to achieve further improvements in the accounts and audit process.

Electors' questions or objections

A question about the Special Expenses element of the 2008/09 financial statements was received by the appointed auditor from an elector. Correspondence took place with the elector and it was determined that no action was required of the appointed auditor in respect of this matter.

Financial standing

The Council is responsible for ensuring that it has arrangements in place to secure an adequate financial standing. This requirement has become more pronounced in light of the current economic climate.

One of our responsibilities as auditors is to consider the financial standing of the Council. The Council's £31.6m net cost of services reported for 2008/09 included £15.8m of asset impairment charges which, together with charges for depreciation, did not have an impact on the General Fund and the amount to be derived from Council Tax. The Council's original 2008/09 budget planned for a net transfer from the General Fund and other reserves of £18,000. The final position of £67,000 represents a £49,000 overspend against the 'bottom line' of the Income & Expenditure account, which corresponds to less than 0.1% of the Council's total £65m gross expenditure. The Council's cash balances increased by £349,000 during the year.

In its Medium Term Financial Strategy (MTFS) for 2009-12 the Council has forecast a net budget requirement in 2009/10 of £11.3m, requiring a transfer from reserves of £0.3m. This forecast includes the effect of two rounds of identified savings for 2009/10 which total £1.18m. It is clear that delivering these savings is critical if the forecast budget is to be delivered. These savings were built into the Council's 2009/10 budget, against which progress is monitored throughout the financial year. The current position indicates that the Council is on target to deliver these savings. With further savings identified for 2010/11 and beyond, it is important that the Council maintains this momentum.

The Council has identified thirteen expected pressures on its finances for the 2009-12 MTFS and it is positive that the Council has sought to identify these likely challenges at the earliest opportunity. Equally, the Council has identified ten strategic financial objectives which set out what the Council is seeking to achieve. These include the need to critically appraise strategically important schemes. This is particularly important given the significant size of the Council's capital programme; the Council is forecasting capital expenditure in 2009/10 of £7.2m, an increase of over £1.5m from 2008/09. It is important that the Council carefully evaluates affordability and expected benefits of capital schemes, with revenue resource requirements considered and funding options examined. Particular importance will lie with using the one-off income derived from assets' sales in the most effective way and with lasting results.

The Council already faces a number of financial challenges and there is every likelihood that following the general election in 2010 further significant cuts in public sector expenditure will have to be made. These potential cuts are brought into sharper focus by the likelihood that the demand for Council services will increase if the economic situation does not improve significantly. In these circumstances, and given the budget risks the Council has itself already identified over the coming years, it remains imperative that the Council continues to focus on the following areas:

- sound financial management and keeping to budgets, in spite of service pressures;
- achieving the significant savings targets identified in the Medium Term Financial Strategy;
- improving and modernising services, making them more efficient and affordable;
- progressing with capital regeneration initiatives and the wider strategic ambitions of the Borough; and
- sound management of the Council's capital programme.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The AGS was included alongside the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The work was completed and the audited pack was submitted on 30 September 2009 in

order to meet the deadline of 1 October 2009. Our work on the Whole of Government Accounts consolidation pack concluded that it was consistent with the statement of accounts for the year ended 31 March 2009.

Treasury management

During the year the collapse of the Icelandic banking system, together with the fact that a number of public sector bodies in the UK held significant investments there, raised concerns nationally as to the adequacy of treasury management practices within the public sector. In response to such concerns, and as part of our Use of Resources assessment we completed a treasury management 'workbook' issued to us by the Audit Commission. This work, which was in the form of a questionnaire completed with the assistance of Council staff, identified no matters for concern. The Council does not hold funds in Icelandic banks but has nonetheless reviewed its policies and practices in light of this issue.

Members' allowances

In light of the recent focus on politicians' expenses, auditors nationally were required by the Audit Commission to review local authorities' schemes for members' allowances. We reviewed whether the Council is complying with the regulations applying to members' allowances schemes, and whether it has made the required disclosures in respect of its own scheme. We did not identify any issues to report from this work.

Certification of grants, claims and returns

During 2008/09 we have performed certification procedures on 6 grants, claims and returns. All required amendments to be made and in four cases we have issued qualification reports, indicating that our certification has been given despite the issues we have identified.

The Audit Commission has indicated that the results of the certification work on grants, claims and returns is likely to increase in prominence going forward. This will be of particular relevance when we are forming our assessment of authorities' arrangements in respect of Use of Resources.

Matters affecting future accounting periods

Transition to International Financial Reporting Standards (IFRS)

CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Council Accounting in the United Kingdom 2010. This will apply to the accounting periods starting on 1 April 2010. The new Code is the first to be prepared under the accounting principles of IFRS. Because of the need to have comparative information for the first set of full IFRS accounts, the effective date of the transition is 1 April 2009. The Council will need to have values for its assets and transactions on an IFRS basis from this date.

The Council will need to ensure that it has a good grasp of the changes to accounting requirements under the new Code, and that it has robust plans in place to enable collection and processing of the information needed to comply with the new Code.

In our experience the key features of a successful IFRS conversion project have proven to be:

- a thorough impact analysis with comprehensive conversion plans;
- the commitment of key stakeholders in the organisation;
- operational steering and technical groups;
- Cabinet and/or Audit Committee oversight;
- regular progress reporting against the plan;
- the necessary project management resources; and
- appropriate and timely training for all members and officers with IFRS involvement.

The Council recognises that it has significant work ahead in order to complete its IFRS transition, and has now commissioned an impact assessment to ensure that the implications of IFRS are fully understood. It is important that the Council uses the results of this assessment to form project groups as soon as possible. A firm target for restating the Council's

1 April 2009 opening balance sheet should be set, and a detailed project plan put in place to ensure this target is met. Our experience of IFRS conversion in other sectors highlights the need for careful project management and an early focus on areas where a significant volume of work is likely to be required.

Audit findings: Value for Money and the Use of Resources

Use of Resources framework

The new Use of Resources framework forms part of the Comprehensive Area Assessment (CAA) and comprises the following three areas or 'themes':

- managing finances;
- governing the business; and
- managing resources.

We assessed the Council's arrangements against a series of Key Lines of Enquiry (KLoEs) grouped into the above three themes which form the Use of Resources framework. The assessment has changed to focus more on an authority's achievements, outputs and outcomes rather than processes and procedures, which had been the primary focus under the previous Use of Resources regime. KLoEs were scored as follows:

- 1 inadequate performance;
- 2 performs adequately;
- 3 performs well; or
- 4 performs excellently.

The scores for these KLoEs then determine the overall score for each area or theme, using rules issued by the Commission. The Commission in turn then determines an overall score for the Council.

Whilst the scoring system and descriptions are largely unchanged from the previous Use of Resources regime, in practice the change of emphasis from systems and processes to real and measurable outcomes means that it is far more difficult for authorities to achieve the same overall score that they did in prior years under the previous Use of Resources assessment.

The Council's scores for each Use of Resources theme were confirmed as follows:

Theme	Theme Score
Managing finances	3
Governing the business	3
Managing resources	2
Overall CAA score	3

The table above shows that the Council achieved performance at level 3 (performs well) for Managing finances and Governing the business and at level 2 (performs adequately) for Managing resources with an Overall CAA score of 3 (performs well). This represents a strong performance in the first year of CAA for which the Council should be commended.

The results of our 2008/09 assessment will feed into the first results of CAA, which the Audit Commission will launch on the Oneplace website in December 2009.

Individual scores for each KLoE underpinning the Council's theme scores are shown below.

Theme 1 - Managing Finances

We scored the KLoEs for managing finances as follows:

Key Lines of Enquiry		Score
1.1	Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	3
1.2	Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	3
1.3	Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	3

Summary of findings

The Council achieves low spend whilst delivering services to a good standard, as demonstrated by the Audit Commission's Comprehensive Performance Assessment (CPA) re-categorisation from "fair" to "excellent" earlier in 2009.

The Council is run on a sound financial basis and considerable efforts are undertaken to effectively forecast and respond to changes in the economic environment. There are strong links between the Council's key priorities and its financial planning. Effective and widespread consultation takes place with residents over spending decisions.

The Council uses benchmarking of costs and services to challenge and improve the ways in which services are delivered and costs have consistently been kept low, while performance has remained good.

Service managers are heavily involved in budgetary management, leading to a shared financial responsibility between services and corporate finance.

Financial, partnership and environmental reporting are all areas of strength.

Opportunities for improvement

In order to achieve improved performance in this area it is important that the Council continues to be able demonstrate how its financial plans have contributed to improved outcomes in relation to Council priorities while securing sound financial health over the medium term.

The Council will need to demonstrate that it has delivered its challenging savings plan identified in the Medium Term Financial Strategy. The Council should also continue to develop its understanding of costs across all parts of its activities and more systematically analyse and manage cost drivers.

Theme 2 - Governing the Business

We scored the KLoEs for governing the business as follows:

Key Lines of Enquiry		Score
2.1	Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	3
2.2	Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	3
2.3	Does the organisation promote and demonstrate the principles and values of good governance?	2
2.4	Does the organisation manage its risks and maintain a sound system of internal control?	3

Summary of findings

The Council has used consultation very proactively to understand the needs of its diverse service users and to respond to them in efficient and effective ways. Cost savings have been achieved through joint working and collaborative procurement. Efficiency targets, balanced by a commitment to provide quality services, are at the heart of the management culture.

The use and management of data is a particular strength, particularly in the area of partnership working, where the Council is proactive in checking key incoming and outgoing data to ensure that decisions are being made in the light of valid information.

Within the assessment of KLoE 2.2, our work on Housing Benefits and Council Tax Benefits identified a small number of data quality issues, although not to an extent sufficient to impact upon the score for this area of the Use of Resources assessment.

With effect from 2008/09, councils have moved away from the Best Value Performance Indicator regime and instead contribute data known as 'National Indicators' or 'NIs' to the Government's National Indicator Set.

We spot-checked the data quality of two of the Council's National Indicators, with the following results:

- *NI 156 Number of Households Living in Temporary Accommodation*

No data quality issues were identified in respect of this NI.

- *NI 192 Percentage of household waste sent for reuse, recycling and composting*

No data quality issues were identified in respect of this NI.

Sound governance arrangements are in place for the Council and its key partnerships.

Risk management is well embedded and forms a cornerstone of the Council's management approach. This approach is extended to the Council's significant partnerships.

The Council has formalised its approach to counter-fraud and corruption through the corporate fraud policy, which extends to partnerships and

contractors.

The Finance and Audit Services Select Committee has a balanced and well-informed membership and is appropriately trained and challenging. The member development programme for all members includes training on risk management.

Opportunities for improvement

It will be important for the Council to continue to be able to demonstrate outcomes in respect of governing the business, particularly around good governance.

The Council should consider whether there would be benefit to service users by benchmarking against best practice bodies outside the public sector.

There is likely to be an increased focus in future assessments upon the results of our work certifying grants, claims and returns and the Council will need to ensure that the high standards seen elsewhere is replicated within this domain.

Theme 3 - Managing Resources

We scored the KLoEs for managing resources as follows:

Key Lines of Enquiry		Score
3.1	Is the organisation making effective use of natural resources?	N/A
3.2	Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	N/A
3.3	Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	2

N.B. KLoEs 3.1 and 3.2 were not relevant for district councils in this first year of the new Use of Resources regime.

Summary of findings

The Council has a Workforce Strategy which is closely aligned to its corporate vision and values, and it is hoped will help achieve its corporate goals. The Council has worked with other local authorities through the Leicestershire & Rutland Improvement Partnership to develop a management development and competency framework. The demographics of the workforce broadly reflect those of the Borough and a strategy is in place to improve the representation of under-represented groups at senior levels.

Opportunities for improvement

The Council will need to ensure that it can demonstrate a strategic approach to workforce planning, including an evaluation of whether and how joint workforce planning might benefit service users.

It would be desirable for the Council to be able to achieve a score of at least level 3 in the Equality Standard for Local Government.

Consideration should be given to the development of a total rewards statement for staff, which would enable them to compare the relative merits of their total salary and pension package more fully against those offered outside the public sector.

Conclusion on Use of Resources

We were also required to conclude on the adequacy of the Council's arrangements for economy, efficiency and effectiveness in its Use of Resources as part of our 2008/09 opinion. In reaching this conclusion, we were required to have regard to the results of our assessment of each of the CAA KLoEs reported above. A score of level two or higher for each of the KLoEs would normally result in an assessment of 'adequate' arrangements for the purposes of forming our Use of Resources conclusion.

We issued an unqualified conclusion on the Council's arrangements for its Use of Resources on 29 September 2009.

