



**Huntingdonshire District Council**

**Annual Audit Letter 2008/09**

**December 2009**

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# 1 Introduction and key messages

## **Purpose of this Letter**

- 1.1 This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at Huntingdonshire District 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](http://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 conclusions under the Code.
- 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 a certificate 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 Cambridgeshire. The results of this work will be reported separately to the Council by the Audit Commission.

### **Key areas for Council action**

- 1.9 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 improve its contract management arrangements and procurement processes to ensure that all officers are complying with requirements and that the weaknesses identified by the internal audit and reported on in the Council's Annual Governance Statement are addressed.
  - 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.
- 1.10 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 22 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 the purposes of accounts approval, the Corporate Governance Panel is designated as "those charged with governance"). We presented our Report to the Corporate Governance Panel on 22 September and summarise only the key messages in this Letter.

### Audit of the accounts

- 2.3 The Council provided draft 2008/09 accounts on 23 June 2009. Closedown was well managed by the Council this year and there is clear corporate commitment to producing good quality accounts. The standard of working papers produced by the Finance Team is good, although there remain areas where improvements could be made.
- 2.4 Our audit identified no material misstatements, but a number of adjustments were required to the accounts, including three relating to the revaluation of fixed assets that took place during the year, including:
- £663k of revaluation gains had not been recognised in the draft statement of accounts;
  - the impairment charge through the income and expenditure account was understated by £489k in the draft statement of accounts; and
  - the Council's revaluation reserve was understated by £355k.
- 2.5 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

- 2.6 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); however, this involves deficit funding through the use of its revenue reserves and by 2013 the Council is forecasting its revenue reserves will be at a level of approximately £3m. Likewise, the Council's capital reserves have been significantly reduced, with £16m being spent in 2008/09, primarily on the development of the new Council offices. The Council recognises that all future capital expenditure will have to be funded from borrowing. This is a significant

change for the Council and may bring challenges around ensuring all future capital bids are subject to rigorous bidding processes and option appraisals.

- 2.7 The financial monitoring report as at 30 September 2009, forecasts that at year end, the budget will be underspent by £500k leading to a reduction in the drawings from revenue reserves to £3.3m for the full year. The Council has reported on the main reasons for the variances. Reductions in planned expenditure are largely attributable to technical issues such as the lower cost of borrowing and the transfer of expenditure to capital. However, the Council is seeing reductions in income from a number of sources and the forecast cost of concessionary fares to the Council has also increased.

***The Council will need to continue to closely monitor performance against its budget and ensure that reductions in spend due to reductions in forecast income are not negatively impacting on service delivery.***

## Financial systems

- 2.8 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.
- 2.9 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. We also took assurance from the work of internal audit to support our responsibilities in documenting and understanding material systems used to prepare the statement of accounts.
- 2.10 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 would adversely impact our audit of the accounts.

## Annual Governance Statement

- 2.11 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

- 2.12 The Council did not have any investments in Icelandic banks at the time of collapse of these banks, but as a response to the Audit Commission report on Icelandic investments it reviewed its treasury management arrangements. Further, 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 of the Council's Treasury Management arrangements did not identify any significant concerns.

### **Members' expenses and allowances**

- 2.13 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 are currently in operation at the Council.

### **Looking ahead**

- 2.14 We would like to draw to the attention of those charged with governance 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 into 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 planned 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 22 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 Corporate Governance Panel on 22 September 2009. We have provided 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 a 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 and 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**

Theme / KLoE		Score
<b>Theme 1 - Managing finances</b>		<b>2</b>
1.1	Financial planning	3
1.2	Understanding costs	2
1.3	Financial reporting	2
<b>Theme 2 - Governing the business</b>		<b>2</b>

#### 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

2.1	Commissioning and procurement	2
2.2	Use of data	2
2.3	Good governance	3
2.4	Internal control	3
<b>Theme 3 - Managing resources</b>		<b>2</b>
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 adequately in all areas of the assessment; however, in three areas the Council was assessed as performing well due to evidence of strength in areas such as its medium term financial planning, risk management arrangements and the effectiveness of its housing benefits anti-fraud team.
- 3.8 The high priority recommendations arising from our UoR assessment were for the Council to ensure that it:
- strengthens further its arrangements for reviewing its financial statements prior to their approval;
  - improves its contract management arrangements and procurement processes to ensure that all officers are complying with requirements and that the weaknesses identified by internal audit, and reported on in the Council's Annual Governance Statement, are addressed;
  - 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; and
  - continues to build on its partnership arrangements and is able to demonstrate how involvement in partnerships has benefited the residents of the District.
- 3.9 We have proposed a number of recommendations for these improvement and we will review progress on implementation during the 2009/10 audit.

### **National Fraud Initiative (NFI)**

- 3.10 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, mainly due to a lack of progress on Housing Benefit matches reports on the system at the time of our review. However, we understand that this was due to access not being granted to the investigating officers which has been addressed. It was noted that the Council has made good progress on other areas of the exercise.

- 3.11 We will continue to monitor the progress the Council makes with this work and report any concerns to the Director of Technology and Commerce, the Internal Audit Manager and Corporate Governance Panel as appropriate.
- 3.12 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

- 3.13 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 to this 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 set this out in a grant Certification Instructions(CI).
- 4.3 Certification work provides important and valuable assurances to taxpayers over public funds, for example:
- 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 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 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. Minor amendments were made to the Housing Benefit Subsidy return as a result of our certification work. However, our work has 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 Commerce and Technology and will be presented to Corporate Governance Panel on 10 December 2009.
- 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

<b>Report</b>	<b>Date issued</b>
Audit Plan	May 2008
Use of Resources and Data Quality 2008	March 2009
Audit Strategy Document	June 2009
Annual Report to those Charged with Governance	September 2009
Use of Resources 2009	November 2009
Annual Audit Letter	December 2009

## Appendix B Audit fees 2008/09

Audit area	Budget 2008/09	Actual 2008/09
Financial statements, including WGA	43,016	43,016
VFM conclusion/Use of resources/Data Quality	34,830	34,830
<b>Total Code of Practice fee</b>	<b>77,846</b>	<b>77,846</b>
Certification of claims and returns (2007/08)	*20,000	25,865
<b>Total fees</b>	<b>97,846</b>	<b>103,711</b>

\* Represents the initial estimate of the cost of certification work, which is billed on a cost incurred basis.





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