



Luton Borough Council

Annual Audit Letter - 2008/09

December 2009

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1 Executive Summary

1.1 Purpose of this Letter

This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at Luton Borough Council ('the Council') during our 2008/09 audit. The Letter is 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.

1.2 Responsibilities of the External Auditors and the Council

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).

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 financial and governance matters.

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.

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.

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.

1.3 What this Letter Covers

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).

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. Our actual and budgeted fees for 2008/09 are set out in Appendix B.

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 Luton. The results of this work have been reported separately to the Council by the Audit Commission.

Note: An audit opinion is deemed to be 'un-qualified' when the auditor does not have any significant reservations about the validity of the figures presented in the accounts. A 'qualified' opinion may arise where such reservations exist, for example, if significant values presented in the accounts are not thought to be accurate or cannot be verified.

1.4 Overall Conclusions

The Council performed well in respect of the key aspects of our 2008/09 audit:

- We provided an 'unqualified' opinion on the Council's Statement of Accounts, by the statutory deadline of 30 September 2009.
- We provided an unqualified conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.
- In the Use of Resources assessment for 2008/09, the Council achieved an overall level 2. This reflected our view that satisfactory arrangements for securing value for money are in place, providing a sound platform for further improvement. This score was in line with other local authorities nationally. We note that the Council was awarded an overall level 2 for the Comprehensive Area Assessment (CAA), of which the UoR assessment forms a key part, due to the Council's record of providing satisfactory services in a challenging local context.
- The Housing and Council tax Benefit claim certification was certified without a qualification letter, for the first time in 3 years, and the number of amendments to the claim was minimal, which is a reflection of the improvements made by the Housing Benefit function in 2008/09.

1.5 Key Areas for Council Consideration

We highlight the following key areas for consideration by the Council in 2009/10.

- The Council needs to build on recent improvements to accounts preparation in 2009/10 to ensure the overall quality of the accounts moves towards best practice achieved by a number of councils.
- 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 and accounting for fixed assets is further strengthened.
- There are a number of areas which require attention arising from the Use of Resources Assessment, which will help the Council to maintain or improve performance in future years (see section 3).

1.6 Concluding Statement

This Letter was agreed with the Head of Corporate Finance in December 2009 and will be presented to Audit Committee in March 2010.

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

2 Statement of Accounts

2.1 Introduction

We issued an unqualified opinion on the Council's 2008/09 accounts on 30 September 2009 in line with the statutory certification deadline. Our opinion confirms that the accounts 'present fairly' the financial position of the Council.

We reported significant matters arising from the audit to 'those charged with governance' (for the purposes of accounts approval this is the Audit Committee). Our report was considered by the Audit Committee on 30 September and we only summarise the key messages in this Letter.

2.2 Quality of the Accounts

Our audit work and opinion confirmed:

- the financial statements 'present fairly' the financial position of the Council
- the Annual Governance Statement was consistent with our knowledge of the Council
- no control issues were identified that presented a material risk to the accuracy of the financial statements
- the scope and conduct of internal audit work was appropriate to support our audit work
- a more robust final accounts process is to be employed in 2009/10 to aid the provision of good quality working papers to enable the audit to progress smoothly
- appropriate controls are in place in the high profile areas of Members' allowances and treasury management

Our audit identified a small number of misstatements to the financial statements which were processed by the Council.

The highest priority recommendation raised related to our audit of the fixed asset balance. Improvements are required including the reconciliation between the Fixed Asset Register and Valuation certificate be strengthened and the fixed asset notes and accounting policies be improved to increase clarity for the reader of the accounts.

2.3 Looking Ahead

We would like to draw your attention to significant changes that will happen to the statement of accounts in future years, and specifically, the implementation of International Financial Reporting Standards (IFRS) as the basis for preparing the

2010/11 accounts. IFRS will replace the existing set of accounting rules and presentational conventions that have been used for the 2008/09 accounts.

The Council has already carried out a lot of work in starting to address IFRS and is therefore well placed to address successful implementation, although there are some significant challenges relating to fixed asset accounting and valuation.

We will be issuing a 2009/10 accounts audit plan to the Audit Committee in March 2010 and will continue to work closely with the Council to support the transition to IFRS.

3 Use of Resources

3.1 Introduction

We issued our annual VFM conclusion on 30 September 2009, at the same time as our accounts opinion. 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.

Prior to giving our VFM conclusion, we summarised the basis of this conclusion in our *Annual Report to those Charged with Governance (ISA 260)*, which we presented to the Audit Committee on 30 September 2009. We 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, issued in October 2009. In this Letter we summarise the key messages from this work alongside relevant findings, and look forward to forthcoming challenges for the Council.

3.2 The VFM Conclusion for 2008/09

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.

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. Our UoR assessment concluded that the Council had at least adequate arrangements in all areas and our VFM conclusion was unqualified.

3.3 The Use of Resources Assessment

In concluding this assessment we came to a rounded judgement based on the detailed criteria set by the Audit Commission. Although the Council was assessed at level 2 in each theme, we acknowledge that there is a broad range of performance among councils scoring level 2 on a national basis. Councils at level 2 range from those which meet the minimum requirements to those which are performing well with some scope for development. In our view, Luton Borough Council should be considered as a strong level 2 with significant potential to move towards level 3 performance in future years, providing that issues highlighted in this assessment are addressed.

The Council's UoR scores in the three themes are summarised in the table below.

Table 1: UoR Theme Scores by Key Line of Enquiry 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

Theme / KLoE		Score
Theme 1 - Managing finances		2
1.1	Financial planning	2
1.2	Understanding costs	2
1.3	Financial reporting	2
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
3.1	Managing natural resources	2
3.2	Asset management	2
3.3	Workforce management	N/A

3.4 Areas for Council Consideration

Key recommended actions for the Council arising from our assessment were discussed in our Use of Resources Report, together with an action plan for implementation. These recommendations were focused on specific areas of improvement which would move the Council towards level 3 performance in the 2009/10 UoR assessment.

In summary, the key recommendations were:

- **Managing Finances**, show a clear link between investment in priorities and improving performance demonstrating further outcomes from, for example, the Luton Excellence programme, leading to efficiencies and improved services.
- **Governing the Business**,
 - develop a corporate approach to commissioning which extends beyond silo-based "traditional" areas of commissioning activity such as social care and housing.
 - improve the level of control over processes for collecting, recording, analysing and reporting performance data through successful implementation of the new corporate performance management system.
 - develop improved arrangements for ensuring the quality of data shared and used in partnership with other organisations.

- **Other Resources**, show a clear and comprehensive understanding of carbon emissions and water consumption, and efforts to reduce both.

3.5 Challenge Issues

Under the Audit Commission Act 1998 - section 15(2), at the request of a local government elector, the auditor shall give the elector, or any representative of his, an opportunity to question the auditor about the accounts. The role of the auditor is set out in the Audit Commission Act 1998. During the year 2008/09, we were not asked to assist with any challenge issues and no issues were outstanding at the date of this report.

3.6 Looking Ahead

We agreed our indicative 2009/10 audit fee with the Council in April 2009. The letter set out our initial assessment of the local issues which may require specific work to support our Value for Money Conclusion and Use of Resources work.

4 Certification of Claims & Returns

4.1 Introduction

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 Key Messages

Our certification programme for 2008/09 has yet to be completed. From the work undertaken to date, we can report that the Council's performance has been satisfactory overall, but with some scope for development.

In 2008/09 we reviewed 10 claims and returns. Overall:

- the timeliness of receipt of claims was satisfactory
- the value of audit amendments to claims reduced
- the quality of working papers to support claim forms has improved and are generally of a good quality.

We would particularly like to note that 2008/09 was the first year that the Housing and Council Tax Benefit claim was not qualified. This is a reflection of the improvements made within the Housing Benefit department and a reflection of the progress made since the Council engaged the services of Peterborough City Council to address the issues within the Revenues and Benefits department.

We produced a detailed report for management in January 2009 which included a number of recommendations in order to prevent similar issues arising in 2008/09. The Council has taken action to address issues, such as completing a reconciliation between the housing benefit system payments and the payments recorded on the main accounting system general ledger for the Housing and Council Tax Benefit claim.

A Reports Issued

Audit Report	Date
Audit Plan 2008/09	June 2008
Annual Report to those Charged with Governance	September 2009
Use of Resources 2009	October 2009
Annual Audit Letter 2008/09	December 2009
Grants Report 2008/09	due January 2010

B Appendix: Audit Fees

Audit Area	Plan 2008/09	Actual 2008/09
Financial statements, including WGA	122,000	122,000
Use of Resources & VFM conclusion	110,000	110,000
Total Code Fee	232,000	232,000
Certification of grant claims and returns*	90,000	*
Total Audit Fee	322,000	*

* The planned fee for certification of grant claims and returns was based on an estimated number of claims and agreed with the Council in April 2009. Actual fees are billed on a cost incurred basis and vary according to the number, complexity and quality of claims presented for audit.

Actual fees will be in excess of the original budget due to additional time spent auditing the Housing Benefit claim and unplanned receipt of project based claims, referred to earlier in this letter.

The actual grant fee will be confirmed in the Grants Report 2008/09 due to be presented to the Audit Committee in March 2010.



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