



## Three Rivers District 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 Three Rivers District 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](http://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 Hertfordshire. 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:

- The Council continues to prepare good quality accounts that are free from material misstatement. We provided an 'unqualified' opinion on the Authority'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 (adequate performance). 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 other local authorities both in Hertfordshire and nationally. We note that the Council was awarded an overall level 3 (performing well) for the Comprehensive Area Assessment (CAA), of which the UoR assessment forms a key part, due to the Council being able to demonstrate strong performance in its key services.

#### 1.5 Key Areas for Council Consideration

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

- The Council should ensure that its medium term financial planning continues to take account of the current economic climate and the likely reductions in public spending in the short to medium term, as well as the impact of the recession on Council income (see section 2.9).
- 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 (see section 2.9).
- 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 3.4).

### **1.6 Concluding Statement**

This Letter was agreed with the Chief Financial Officer in December 2009 and will be presented to Audit Committee early in 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 28 September 2009, ahead of the statutory certification deadline. Our opinion confirms that the accounts 'present fairly' the financial position of the Council.

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 this is the Audit Committee). We presented our findings to the Audit Committee on 9 September and summarise only the key messages in this Letter.

### 2.2 Quality of the Accounts

The Council produced a set of draft 2008/09 accounts for audit on 26 June 2009. Closedown was well managed by the Council and there was clear commitment to producing good quality accounts. The Council continues to prepare good quality accounts that are free from material misstatement and which are supported by good working papers. This resulted in a relatively smooth audit process and a relatively low level of proposed adjustments. The audit identified a small number of changes to disclosures in the notes and there were also a small number of minor adjustments which were not adjusted on grounds of materiality. The matters identified in our *Annual Report to those Charged with Governance (ISA 260)* had no material impact on the General Fund balance or charges to Council tax payers.

There was one significant ('material') adjustment arising from late changes to the value of net pension assets in the Council's share of the Hertfordshire County Pension Fund. This resulted in the correction of a net understatement of pension fund assets and a corresponding overstatement of pension fund liabilities of £872k. This affected the expected return on assets within the Income and Expenditure account and the Pension Fund liability within the Balance Sheet. The Fund is managed by Hertfordshire County Council and we recognise that the changes were therefore outside the control of Three Rivers District Council.

### 2.3 Financial Performance

The Authority has reported an Income and Expenditure (I&E) account deficit of £3.64 million which is in line with the revised medium term financial plan. The Statement of Movement on the General Fund Balance adjusts the I&E deficit to exclude specific costs, which are determined by statute, in order to calculate the impact on the Council's General Fund. This statement shows that the Authority has delivered a net surplus which increases the general fund by £5.18 million. The Authority revised its budget during the year in order to set council tax for 2009/10, including a projected increase in the general fund of £5.02 million and therefore the variance against actual outturn was 3.2% in excess of the revised target (0.4% of gross budget).

The Authority managed revenue expenditure within the revised budget for the year. We were also pleased to note that expenditure against the capital budget was delivered broadly in line with delivery plans for the year, which reflects an improvement on the level of under-spend and re-phasing which has been reported in prior years.

#### **2.4 System of Internal Control**

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the statement of accounts audit. Our evaluation of the Authority's key financial control systems did not identify any control issues presenting a material risk to the accuracy of the statement of accounts.

There was one issue in regard to the bank reconciliation process, which we deemed significant and drew to the attention of those charged with governance in our ISA 260 audit report. The bank reconciliation had not been balanced on a monthly basis during the year, following the retirement of the officer previously responsible in June 2008. This had been noted in the 2007/08 audit report and continued to be an issue during 2008/09. In addition we noted that there was a systematic weakness in procedures that resulted in electronic payments not being matched to receipts, which had made the reconciliation difficult to complete. As a result of these issues, a number of reconciling items remained at year end. After year end, the un-reconciled difference had been reduced to less than £4,000 and we were satisfied that the bank balance was not materially misstated as a result. Our tests did not identify evidence of any attempted fraud. However, we consider that the bank reconciliation is a fundamentally important control that, if not functioning correctly, exposes the Authority to the risk of potential fraud and material misstatement in future periods and recommended that action be taken accordingly.

We performed a high level review of the general IT control environments 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.

#### **2.5 Internal Audit**

In 2008/09 the Council's internal audit service was provided by Deloitte LLP. The service helps to support the internal control and risk management arrangements. The service reviews various aspects of operational activities, including accounting and financial management, on a cyclical basis. As the Council's external auditors, we look to use the work of Internal Audit to support our audit of the accounts, where possible. We reviewed the work of Internal Audit and concluded that the quality of the work was appropriate to support our work in auditing the Council's 2008/09 Statement of Accounts. There were no fundamental control issues arising from the work of Internal Audit that impacted on our planned audit strategy.

## **2.6 Annual Governance Statement**

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. We concluded that overall, the AGS was consistent with our knowledge of the Council. It is important for the Council to ensure timely and robust action is taken to implement the control improvements identified in the AGS.

## **2.7 Treasury Management**

In light of the Icelandic bank crisis, auditors were requested by the Audit Commission to review the treasury management arrangements in place at local authorities. The Council's treasury management policies are centred around cash deposits in highly rated UK based financial institutions, and none of the deposits held were deemed to be at risk. We concluded that the procedures in place for the year ending 31 March 2009 were sufficiently robust to support our audit opinion, our VFM conclusion and our Use of Resources assessment and we had no significant matters to report to those charged with governance.

## **2.8 Members Expenses & Allowances**

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

## **2.9 Looking Ahead**

The Council should ensure that its medium term financial planning continues to take account of the current economic climate and the likely reductions in public spending in the short to medium term, as well as the impact of the recession on Council income.

We would also 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. Although 2010/11 may seem a long way off, it is important that authorities start planning now, as there will be significant changes to the content and appearance of the accounts in future years.

We recognise that the Council has already started to address IFRS. There remain some significant challenges, particularly around fixed asset accounting and valuations, but the Council is well placed to take IFRS implementation forward.

## 3 Use of Resources

### 3.1 Introduction

We issued our annual VFM conclusion on 28 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 29 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, which was presented to Audit Committee on 25 November 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, Three Rivers District 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.

During our review, we noted areas of good practice, notably in regard to financial planning within theme 1 which the Council should look to build on. 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 - Meets at minimum requirements – adequate performance  
 3 - Consistently above minimum requirements – performing well  
 4 - Well above minimum requirements – performing strongly

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>
2.1	Commissioning and procurement	2
2.2	Use of data	2
2.3	Good governance	2
2.4	Internal control	2
<b>Theme 3 - Managing resources</b>		<b>2</b>
3.1	Managing natural resources	N/A
3.2	Asset management	N/A
3.3	Workforce management	2

### 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:

- Review of the way in which financial and performance data is presented to members to ensure that performance monitoring and policy decisions are supported by information which is clear, concise, and focused on the key considerations.
- Strengthen procedures which safeguard the quality of data used to monitor and report operational performance (i.e. National Indicators).
- In preparation for the assessment of the use of Natural Resources in 2009/10, the Council will need to demonstrate that a broad strategy for environmental sustainability, with supporting policies and procedures, are in place, together with demonstrable evidence of strong outcomes (for example, the achievement of strategic targets in this area).

### **3.5 National Fraud Initiative**

The National Fraud Initiative provides local authorities with an internet based reference tool to help identify instances of potential fraud, including benefit claims. We have recently completed a mandatory National Fraud Initiative (NFI) risk assessment for the Audit Commission, based on the Council's progress in investigating potential data matches identified on the system. The assessment was based on a 'traffic light' marking system and in common with most of our local authority clients, we assessed the Council as 'amber', reflecting that satisfactory progress is being made. We will continue to monitor progress as part of our 2009/10 work.

### **3.6 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.

### **3.7 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.

The key consideration for 2009/10 is that the Council is implementing a shared services arrangement with Watford Borough Council for the provision of corporate services, including the finance function. Although there are no specific concerns at this stage, we have to consider the potential audit risk attached to the re-configuration of systems, processes and staff that may arise. We will monitor the progress of shared services implementation through discussion with Council officers and review of committee minutes in order to identify and plan for emerging issues.

We confirm that we will build this into the risk assessment for our 2009/10 plan, along with specific follow up of our 2008/09 recommendations, and any new risks emerging, when we agree our full plan in December 2009.

## 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.

To date, we have completed the certification of three Claims and returns in 2008/09. Two of these claims have been provided with 'unqualified' audit certification. The Housing Benefit & Council Tax Benefit claim for the year ended 31 March 2009 was 'qualified' due to a minor technical issue related to the submission of the return.

The quality of working papers provided to auditors was considered to be of a good standard. Key officers had been provided with training in preparation of claims and returns and the certification process.

On completion of our work on claims and returns, our detailed findings and recommendations will be included in a separate audit report. This will be presented to those charged with governance in due course.

## A Reports Issued

<b>Report</b>	<b>Date issued</b>
Indicative Fee Letter 2009/10	April 2009
Annual Report to those Charged with Governance (ISA 260)	September 2009
Use of Resources Report	November 2009
Audit Plan 2009/10	December 2009
Annual Audit Letter	December 2009

## B Appendix: Audit Fees

Audit Area	Planned Fee 2008/09 £	Actual Fee 2008/09 £
Audit Planning & Meetings	25,500	25,500
Accounts	49,200	49,200
Use of Resources / VFM Conclusion	31,860	31,860
<b>Total Audit Fee</b>	<b>106,560</b>	<b>106,560</b>
Certification of Claims and Returns	31,500	22,000*

\*Estimated based on work invoiced up to November 2009.



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