

Three Rivers District Council

Annual Audit Letter 2010/11

November 2011



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1. Executive summary

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 2010/11 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 Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

What this Letter covers

This Letter covers our 2010/11 audit, including key messages and conclusions from our work in:

- auditing the 2010/11 year end accounts (Section 2)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money is achieved. (Section 3)
- certification of grant claims and returns to various government departments and other agencies (Section 4)

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 finance 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 under the Code.

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.

Our main audit conclusions for the year

The 2010/11 accounts give a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council.

The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Context

In the current financial climate, the Coalition Government's continuing priority is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £81 billion are planned from Government spending by 2015, including a 26% reduction in grants to local government over the four year period. At the same time, the Government has stated that it's their aim to reduce top-down government and devolve power and give greater financial autonomy to local authorities by a range of measures including:

- further reducing ring-fenced central government grants
- planned changes to the administration of business rates so that any council that expands its business base would see increased business rates that it would be able to keep.

This Letter has been written in the context of the significant change agenda in which the Council is operating. The Council is facing significant challenges, as evidenced within the financial resilience report produced as part of our VfM work. The Council will need to continue to monitor the MTFP during its delivery, in particular in relation to the impact of price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan. In addition, work is still required to ensure savings assumptions in the latter years of the MTFP are developed in more detail and clear milestones for benefit realisation are set.

Key Messages

Accounts audit

2010/11 was the first year that councils were required to prepare their accounts under International Financial Reporting Standards (IFRS). As part of the work undertaken on the audit of the accounts, we assessed whether there had been any departures from the requirements of the CIPFA Accounting Code which is IFRS compliant. We did not identify any significant departures from these requirements. It was positive to note that the Council undertook early planning to address the IFRS transition, and this was reflected in the lack of issues identified. There were some issues with the production of the accounts, which are reflected in our key issues section of this report.

We issued an unqualified audit opinion on 30 September 2011. Further details can be found in section 2 of this Letter.

Value for Money

We issued an unqualified VfM conclusion on 30 September 2011 confirming that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

We undertook a review of financial resilience and it was positive to note the strong start made by the Council in addressing the financial pressures they are facing. Clearly, it remains vital that the on-going challenge continues to be monitored. Further details can be found in section 3 of this Letter.

Grants certification

To date we have certified three claims, of which none have been qualified and once claim, NNDR, was subject to a minor amendment. Once the work on the remaining claims has been completed we will report in full on our findings.

Key areas for Council action

We highlight the following key areas, where the Council should take action to further improve its arrangements in 2011/12:

- The Council should assess the capacity and deliverability of the shared finance function going forward to ensure that all key deadlines are met.
- The Council should continue to monitor its Medium Term Financial Plan (MTFP) during its delivery, in particular in relation to changes to key assumptions, such as the impact of price inflation in the medium term, the outcome of the Government's funding settlement for the final two years of the plan, and consultation on the future funding of council tax benefit.
- The Council should assess the current deficiencies raised in the independent assessment of the adequacy of the IT arrangements in place, delivered by the shared service IT function, and their capacity to provide a robust IT environment.
- The Council should return to its 2009/10 approach of producing electronic working papers for future years.

The context for these key messages can be found in this Letter. A list of the reports issued during the year can be found at Appendix A. Recommendations have been raised within the reports listed and the Council should ensure that these recommendations are implemented as planned. Appendix B sets out our actual and budgeted fees for 2010/11.

Acknowledgements

[This Letter has been agreed with the Director of Corporate Resources & Governance and was presented to the Audit Committee on 10 November 2011.]

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
November 2011

2. Audit of the accounts

Introduction

We issued an unqualified opinion on the Council's 2010/11 accounts on 30 September 2011, ahead of the statutory certification deadline of 30 September 2011. Our opinion confirmed that the accounts give a true and fair view of the Council's financial affairs at 31 March 2011 and of its income and expenditure for the year.

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our Annual Report to those Charged with Governance to a meeting of the Audit Committee on 7 September and summarise only the key messages in this Letter.

Only the primary financial statements were presented for audit on 30 June 2011 deadline when a complete set of accounts with associated notes should have been provided. The complete set of accounts was provided to audit on 14 July 2011, which is 2 weeks after the national deadline of 30 June 2011. The time taken to respond to audit requests by the wider finance team could be improved, the lengthiest delay in information provision was experienced with the Revenues and Benefits service. The capacity of the finance function should be assessed going forward.

We believe the Council would benefit from synchronising their audit committee dates with those of Watford BC, as both councils utilise the finance shared service function to produce their accounts.

International Financial Reporting Standards

2010/11 was the first year that councils were required to prepare their accounts under International Financial Reporting Standards (IFRS). We undertook a review of the Council's preparedness in April 2011 and assessed the arrangements for re-stating each line of the balance sheet on a RAG basis (Red, Amber, Green). Overall we rated the Council's arrangements as being Green, a reflection of the early planning and the detailed work that went into the process.

As part of the work undertaken on the audit of the accounts, we assessed whether there had been any departures from the requirements of the CIPFA Accounting Code which is IFRS compliant. We did not identify any significant departures from these requirements.

Audit of the accounts

The following adjustments were made to the draft accounts as a result of the audit:

- A prior year income accrual of £407k had not been reversed out after the amount was expended
- During the conversion from UK GAAP to IFRS, the Council did not remove a balance of £65k from investment assets and raise a corresponding credit to the capital adjustment account relating to the accounting for a finance lease

Financial performance

The Council reported an overspend of £299k against a budgeted overspend of £1.567m for 2010/11, which is £1.27m less than expected.

As at the end of month 6 (September 2011), the Council was reporting an anticipated overspend of £477k. The Council understands the reasons for variances against service budgets and produces a detailed report each month highlighting the variances. This has highlighted the major adverse variances being around investment income, £250,000 less than budgeted, and car parking income, £100,000 less than budget. These variances have been set against a favourable position relating to the NNDR refund for the part of Three Rivers house, that has been let out to Hertfordshire police and the Council received a VAT refund to give a net overspend of £83k.

Our review of Financial Resilience has noted that the Council will need to continue to monitor the MTFs during its delivery, in particular in relation to the impact of price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan. In addition, work is still required to ensure savings assumptions in the latter years of the plan are effectively developed and the savings realised.

We will continue to keep the Council's financial position under review as part of our 2011-12 audit and the follow-up work we have planned on the Financial Resilience element of our VfM review.

Financial systems

We undertook work on key financial systems sufficient to support our approach to the accounts audit. The work was in three main areas:

- review of key financial controls for the purpose of designing our programme of work for the financial statements audit
- assessment of the work of internal audit to help inform our risk assessment of the adequacy of the Council's financial systems for producing the 2010/11 accounts
- high level review of the general IT control environment.

Our work did not identify any control issues that present a material risk to the accuracy of the financial statements. We did, however, identify a high risk control point surrounding the allocation of user id to all users on the e-financials system. The Council engaged the services of an external consultant who concluded that there was insufficient data storage capacity, failure of back ups of data and the current path of web traffic requires re-routing. Significant change and investment is needed to improve IT arrangements. This remains a major risk area over which members have expressed considerable concern. In our view addressing IT issues is a priority that must be effectively addressed in 2011/12.

Annual Governance Statement and Explanatory Foreword

We examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS) and read the AGS and Explanatory Foreword to consider whether they were in accordance with our knowledge of the Council. Our review of internal audit also supported our review of the Annual Governance Statement (AGS) which in turn informs our VfM conclusion and our audit of the financial statements.

We concluded that the AGS, subject to audit amendment regarding the presenting of information technology as a stand alone significant control risk, and Explanatory Foreword were consistent with our knowledge of the Council.

Certification Arrangements

At the time of writing the letter the Council had submitted one claim for certification, national non domestic rates. The claim was certified by deadline but we received the draft claim after the due submission date of 23 June to the Department for Communities and Local Government.

Whole of Government Accounts (WGA)

The Council submitted its draft WGA L Pack for audit by the Department for Communities & Local Government (CLG) on the 2 September, which is after the deadline of 29 July. Although delays were incurred in finalising the WGA L Pack after the main accounts were signed, minimal adjustments were required to be made to the Pack as a result of our review and we submitted the audited WGA to the CLG on 14 October.

4. Value for money

Introduction

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We were required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.

Key Conclusions

We issued our annual VfM conclusion on 30 September 2011, at the same time as our accounts opinion, meeting the required deadline of 30 September 2011. 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 2011.

Although we have assessed the Council as having proper arrangements in place to meet all the Code criteria, there are some areas where the Council can improve its arrangements. These are highlighted within the key findings included over the page.

Securing Financial Resilience

We completed an assessment of whether the Council has robust systems and processes in place to:

- effectively manage its financial risks and opportunities
- secure a stable financial position
- enable it to continue to operate for the foreseeable future.

We reviewed the Council's arrangements against indicators of effective performance in four key areas:

- key indicators of performance
- strategic financial planning
- financial governance
- financial control.

Financial resilience

Key findings from the financial resilience review are within the table below.

Area of review	Summary observations	Summary level risk assessment
<p>Key indicators of performance</p>	<ul style="list-style-type: none"> • The Council has a good track record of financial management, achieving underspends on budget in each of the last three years. • Benchmarked key indicators of performance indicate that the Council hold a high level of useable reserves compared to their nearest neighbours. Further analysis found that the Council was able to meet their net revenue expenditure more than twice over from the amount of usable reserves. • The comparison also highlights a strong position in terms of working capital. However, it is clear that working capital will come under increasing pressure as a result of the CSR and will need to be carefully monitored. • Sickness levels have been showing a reducing trend and current performance reflects well against both public sector and private sector averages. Absence management will be a particular challenge for all authorities going forward, given the context of significant pressures on staff to deliver 'more for less'. • The Council will need to carefully monitor these financial indicators to ensure that it remains financially resilient during the MTFS period. 	<p style="text-align: center;">  Green </p>
<p>Strategic financial planning</p>	<ul style="list-style-type: none"> • The Council was able to undertake the most recent MTFS process with an effective lead in time and the process had a high level of stakeholder engagement. • Savings programme performance for 2011/12 is that from the £611,990 of budgeted savings targeted, the Council has identified £387,790 of savings as at the end of period 6 of 2011/12 which is ahead of target. • Key to the MTFS is also how the Council manage their capital going forward. It is intended that a significant proportion of the proposed programme will be funded from available capital receipts. This could prove challenging given the current economic outlook. In addition to this, there may be a requirement for the Council to undertake borrowing in the medium term. The Council must closely monitor the potential risks around the funding of the plan. • The Council will need to continue to monitor the MTFS during its delivery, in particular in relation to the impact of price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan. In addition, work is still required to ensure savings assumptions in the latter years of the plan are effectively developed and the savings realised. 	<p style="text-align: center;">  Green </p>

Key: ● High risk area ● Potential risks and/or weaknesses in this area ● No causes for concern

Area of review	Summary observations	Summary level risk assessment
<p>Financial governance</p>	<ul style="list-style-type: none"> • The monthly budget packs are produced and placed on the intranet for the committee members to review. The packs contain detail of variance analysis and identifying the reason for the variance but there is no document that outlines any remedial action to correct the variances or commentary from the previous months variances identified to analyse whether the remedial action has corrected the variance. • The Council sought and obtained the views of the political groups in approval of the 2011-14 Strategic plan. • The monthly finance position report provides analysis of income from fees and charges by volume and value per month, commentary is provided but the presentation of the information could be improved with the introduction of target annual values per income stream. The narrative is quite detailed and the introduction of target values will further strengthen the presentation of information. • The Council did ensure that the appropriate financial skills were in place across the organisation but since the transfer to a shared service centre, certain processes have lapsed, in particular the process of reconciliation between systems. The delivery of the accounts on 14 July 2011, was after deadline and the combination of these elements has led to concern around the deliverability of the shared service finance function. 	<p style="text-align: center;">  Amber </p>
<p>Financial control</p>	<ul style="list-style-type: none"> • The Council currently hold £7.933million, as at 31 March 2011, in general fund balances to support the MTFS, which is above the expected level of balances a district council would be expected to hold. • As at June 2011 there were 41 internal audit recommendations, excluding the information technology recommendations, that remain outstanding. • The finance team has been in place in Three Rivers DC for a number of years and we have experienced no issues in the production of accounts in the previous years but this year proved not to be as effective as in previous years with the delay in the provision of information that stretched the sign off date from 7 September 2011 to 30 September 2011. • The Council should consider adopting a purchaser provider relationship with the finance function and ensuring that no slippage in deadlines occurs and all products and reconciliations are carried out on a regular basis by agreed deadlines. • The Council received unqualified accounts and value for money opinions on 30 September, in line with the national deadline of 30 September 2011. 	<p style="text-align: center;">  Amber </p>

Key: ● High risk area ● Potential risks and/or weaknesses in this area ● No causes for concern

Our overall conclusion was that the Council had proper arrangements for securing financial resilience but there were some areas where improvements should be made. We will present our report to the Audit Committee on 10 November 2011, which included an agreed action plan to deal with the issues raised. We will follow up progress in implementing the plan as part of our 2011/12 audit.

Securing Economy, Efficiency and Effectiveness

We reviewed whether the Council had prioritised its resources to take into account the tighter budgets it was operating within and whether it achieved cost reductions and improved productivity and efficiencies. We completed a review against key risk indicators identified by the Audit Commission, examples of which include tailoring services to local needs, governance, risk management and asset management.

The risk indicators include decision making not based on appropriate or adequate information, which assesses the data quality. In the prior year the 2008/09 housing benefit claim was qualified due to insufficient record retention. The work on the 2009/10 housing benefit claim and improvements in the housing benefit process removed this as a potential risk area.

The Council maintained their high level of robust evidence to support their ability to identify, or justify, high levels of spending compared to other comparable bodies via the citizens panel.

The review did not highlight any significant issues that would impact upon our conclusion in respect of this criteria.

Approach to local VFM work 2011/12

At time of writing there are no changes proposed to the approach to local Value for Money work in 2011/12. We will focus on the two key reporting criteria, namely:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We will determine a local programme of VFM audit work based on our audit risk assessment, informed by the criteria above and our statutory responsibilities and agree this with the Council. Local risks for the Council to consider at this stage include:

- The effectiveness of the monitoring arrangements for delivering the shared functions within budget at the Council .
- The adequacy of its Medium Term Financial Plan once further announcements are made by the Government in respect of the funding settlement from 2013 onwards.
- The impact of proposed changes to the funding of Council tax benefits on the Council's finances going forwards.
- The effectiveness of the IT arrangements including the progress of the implementation of the recommendations raised in the independent assessment of the shared service IT function.

4. Grants Certification

Introduction

Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2009/10 certification work we reported that performance had remained strong against the key performance measures.

We are currently in the process of certifying the 2010/11 grant claims and returns. We are pleased to report that the 2010/11 audit of the national non domestic rate return was certified by the national deadline and subject to amendment.

Once this work is complete we will report in full on the findings of our work.

Appendices

A. 2010/11 reports issued

Report	Date Issued
Audit Plan	January 2011
Review of Arrangements for Implementation of International Financial Reporting Standards (IFRS)	April 2011
Audit Approach Memorandum	June 2011
Report to Those Charged With Governance (ISA 260)	September 2011
Financial Resilience Report	November 2011
Annual Audit Letter	November 2011
Grants Certification Report	Due February 2012

B. Audit and other fees 2010/11

Audit area	Budget 2010/11	Actual 2010/11
Total Code of Practice fee	£105,000	£105,000
Certification of grant claims and returns*	£20,000	TBC

*The quoted fee for grant certification work is an estimate only and will be charged at published hourly rates.



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