Grant Thornton

Huntingdonshire District Council

Annual report to those charged with governance 2007/08

September 2008

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1 Introduction

Background and purpose of the report

1.1 Huntingdonshire District Council ('the Council') is responsible for the preparation of accounts which record its financial position as at 31 March 2008 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's accounts 'present fairly' the financial position of the Council. Our detailed findings are set out in section two.

1.2 Under the Audit Commission's Code of Audit Practice we are also required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). The pieces of work that have informed our VFM conclusion, and our detailed findings, are set out in section three.

1.3 The Audit Commission's Statement of Responsibilities, which sets out the respective responsibilities of the Council and the auditor in relation to the accounts and arrangements for securing economy, efficiency and effectiveness in the use of resources, have been re-produced in full in Appendices E and F and reflects the scope of our audit.

1.4 This report summarises the principal matters arising from our audit. The issues raised have been discussed with the Head of Financial Services and his team and other officers as appropriate. Auditing standards require us, as the Council's external auditors, to report to those charged with governance certain matters before giving an opinion on the accounts and the Code of Audit Practice requires us to report key matters relating to our VFM conclusion. For the Council, this function will be carried out by the Corporate Governance Panel at its meeting on 23 September 2008.

The accounts opinion

1.5 We have performed our audit of the 2007/08 accounts in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards. Our approach follows that set out in the Audit and Inspection Plan 2007/08, agreed with the Council.

1.6 At the time of reporting to the Corporate Governance Panel, the audit is substantially complete and we expect to issue an **unqualified opinion on the Council's accounts** by the 30 September deadline.

1.7 As was the case in 2006/07 the Council continues to prepare accounts that are free from material error and misstatements and are supported by adequate working papers.

1.8 However, audit procedures did identify that the Council had not accounted for £540,000 of revenue expenditure in its net cost of services. This related to money transferred from an earmarked S106 reserve which was spent on housing services. The adjustment is significant and has increased the in-year deficit on the income and expenditure account by the same amount. It has not, however, impacted on the general fund balance as because of the nature of the transaction, the amount is required by statute to be excluded when determining the movement on the General Fund balance.

1.9 One area where the draft accounts did not comply with the 2007 SORP was that the Council had not prepared disclosure notes for its financial instruments. This was raised with the Council and these adjustments have now been made as set out in section 2.

1.10 There were no further significant adjustments identified that require amendment to the accounts or that require reporting to you, as those charged with governance.

1.11 We are required to provide an audit opinion on the consolidation pack that is to be completed as part of Whole of Government Accounts. This work is not covered by our opinion on the Council's accounts. The deadline for the submission of the Whole of Government Accounts for audit was 31 August 2008. However, the Council has not yet submitted this return to use. As a result, there is a risk that we may not meet the deadline for the completion of this work (1 October).

1.12 We recommended a number of changes to the Annual Governance Statement ('AGS') to ensure that is aligned with the Delivering Good Governance In Local Authorities Framework as published by SOLACE and CIPFA. These changes have been processed by the Council.

1.13 Further details of our accounts audit are given in section two.

1.14 Finally, 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 International Financial Reporting Standards ('IFRS') in 2010/11. Although this may seem a long way off, it is important that Council's start planning now, as there will be significant changes to the accounts, and 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 would not be charged additional audit fees, compared to those that are not well planned. We would be happy to share our experiences of working with CIPFA in this area, as well as involving our Financial Reporting Advisory Group who are specialists in planning for IFRS.

Value for Money Conclusion

1.15 We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we expect to issue an **unqualified VFM conclusion** by the 30 September deadline.

1.16 In giving our VFM conclusion, we have also considered emerging findings from our 2008 use of resources key lines of enquiry (KLoE) assessment. Following national submission of our KLoE scores and Audit Commission quality assurance, we will write to the Council confirming 2008 KLoE scores, in November 2008.

1.17 Key messages from this year's Use of Resources work are summarised in section three.

Use of this report

1.18 This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards and should not be used for any other purpose. No responsibility is assumed by us to any other person. This report should be read in conjunction with the Council's draft letter of management representation.

1.19 This report includes only those matters that have come to our attention as a result of performance of the audit. An audit of the accounts and Use of Resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters.

1.20 We would like to take this opportunity to remind the Corporate Governance Panel of the need to monitor implementation of the recommendations arising out of this report (see Appendix A) and other reports issued during the year (see Appendix C).

Independence

1.21 We are able to confirm our independence and objectivity as auditors and note the following:

- we are independently appointed by the Audit Commission
- the firm has been assessed by the Audit Commission as complying with its required quality standards
- the appointed auditor and client service manager are subject to rotation after a period of no longer than five years
- we comply with the Auditing Practices Board's Ethical Standards. We have not undertaken any non-audit work for the Council in 2007/08 (Appendix D).

Acknowledgements

1.20 We would like to record our appreciation for the co-operation and assistance provided to us by the Council's officers and members during the course of our audit.

Grant Thornton UK LLP
September 2008

2 The accounts opinion

Introduction

2.1 We summarise in this section matters arising from our audit of the Council's 2007/08 accounts which we are required, under auditing standards, to report to those charged with governance.

Approach to the audit

2.2 We carry out work to enable us to report to the Council our opinion as to whether the financial statements 'present fairly' the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 ('the SORP').

2.3 Our approach to the audit was set out in our 2007/08 Audit and Inspection plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice.

2.4 Other key factors to highlight include:

- we consider the materiality of items in the accounts both in determining the audit approach and in determining the impact of any errors
- we have been able to place reliance on the key accounting systems operating at the Council for final accounts audit purposes
- we have been able to place reliance on the work of internal audit in respect of the key accounting systems covered by their review.
- no significant changes have been made to our audit approach in the year and as outlined in out Audit Strategy Document issued to the Council in May 2008.

Financial Performance

2.5 The Council has reported a deficit on the Income and Expenditure account of £10,305,000. The Council recorded an underspend against the budget of £2.5m in 2007/08, comprised of a number of positive and negative variances. Variances from the original budget included Local Authority Business Growth Incentive (LABGI) grant totalling £371,000 received in year from DCLG and an additional £244,000 of planning development grant. Taking advantage of favourable interest rate movements and the impact of this on investment income resulted in an additional £157,000 of income which had not been budgeted for.

2.6 As a result of this, the Council has added £1,170,000 (of which £280,000 is to fund delayed projects) to the general fund balance which now stands at £20,410,000. We have reviewed the Council's medium term plan which forecasts that by 2013/14, the balance of this fund will have been reduced to £3,000,000 through supporting forecast revenue expenditure.

Key audit findings

2.7 We summarise our key audit findings below:

Area	Key messages
Accounting policies and practices	The Council has adopted appropriate accounting policies, in accordance with the 2007 SORP. There was one key area in which the draft accounts did not comply with the 2007 SORP, relating to financial instruments disclosures which were a new requirement for 2007/8. The Council had not included disclosures in the draft accounts. Management have now prepared and included appropriate disclosures in the revised Statement of Accounts so that they comply with the SORP. A number of other presentational changes were required to the accounting policies to ensure that they were compliant with the SORP and that they fitted the definition of principles, bases, conventions, rules and practices applied by the Council which specify how the effects of transactions and other events are reflected in its financial statements. We reviewed the Annual Governance Statement and proposed a number of changes to it to ensure that it complies with the Delivering Good Governance in Local Authorities framework. These details are also included in Appendix B. We are satisfied that the relevant financial information disclosed in the Explanatory Foreword is consistent with the accounts.
Material risks and exposures	The Council has confirmed in its draft letter of representation that it has no material risks and exposures, to date, which should be reflected in the accounts. Our audit procedures have not identified any significant risks and exposures to the Council, to date, which should be reflected in the accounts. This review will be updated on the date the Council signs the final letter of representation and we sign our audit opinion.

Area	Key messages
Audit adjustments	One significant adjustment was made to the accounts. The Council had not accounted for £540,000 of revenue expenditure in its net cost of services. This related to money transferred from an earmarked S106 reserve which was spent on housing services. The adjustment is significant and has increased the in-year deficit on the income and expenditure account by the same amount. It has not, however, impacted on the general fund balance. We also recommended a number of presentational adjustments, including misclassifications of balances and to improve clarity of disclosure of leases and financial instruments. Details are included in Appendix B.
Unadjusted errors	Management agreed to process all proposed adjustments, detailed in Appendix B. There are no unadjusted errors to report to the Corporate Governance Panel.
Other matters	The overall quality of the Council's working papers to support the 2007/08 accounts remain adequate; however, not all working papers were available at the start of the audit, for instance, the financial instruments disclosures and there were some delays in obtaining additional information. We were presented with draft accounts on 18 June 2008. The Corporate Governance Panel approved the draft accounts on 24 June 2008. The appointed day for electors to ask the auditor questions on the accounts this year was 4 September 2008. We received no questions or objections from the public in relation to the accounts. Having considered the Council's medium term financial strategy and 2008/09 budgets it is appropriate for the Council to account on a going concern basis. We have not identified any matters, that we have not already reported, that require the attention of the Corporate Governance Panel. Where we have identified control issues as a result of our work on the 2007/8 accounts audit we have discussed these with the Head of Financial Services and his team and have reflected their responses to the matters raised in the Action Plan attached at Appendix A.

Next steps

2.8 We will continue to work with the Council to ensure that outstanding finalisation issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 30 September 2008.

2.9 Subject to satisfactory resolution of the above issues, we expect to issue an **unqualified opinion on the Council's accounts**.

2.10 We are required to provide an audit opinion on the consolidation pack that is to be completed as part of Whole of Government Accounts. This work is not covered by our opinion on the Council's accounts. The deadline for the submission of the Whole of Government Accounts for audit was 31 August 2008. However, the Council has not yet submitted this return to use. As a result, there is a risk that we may not meet the deadline for the completion of this work (1 October).

2.11 The Corporate Governance Panel should monitor implementation of the recommendations arising from this report.

3 The VFM conclusion

Introduction

3.1 Under the Audit Commission's Code of Audit Practice we are required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). In meeting this responsibility we review evidence that is relevant to the Council's corporate performance management and financial management arrangements, which are assessed against twelve criteria specified in the Code of Audit Practice.

Approach to the audit

3.2 The following pieces of work have informed our assessment against the Code criteria:

- review of relevant findings from the Council's Direction of Travel Statement issued in March 2008
- assessment of the Council's data quality management arrangements, using criteria prescribed by the Audit Commission
- assessment of the Council's arrangements for financial reporting, financial management, financial standing, internal control and value for money, using the Commission's key lines of enquiry (KLoE)

3.3 The key findings from each of these pieces of work are summarised in this section of the report.

VFM conclusion

3.4 We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we expect to issue an **unqualified VFM conclusion** by the 30 September deadline.

3.5 Our conclusions for each of the 12 Code criteria are set out in the table below:

Code area	Source of evidence	Arrangements adequate?
Setting, reviewing and implementing strategic and operational objectives	Direction of travel statement	Yes
Communication with service users and other stakeholders and partners	Direction of travel statement	Yes
Management of performance against strategic objectives	Direction of travel statement	Yes
Monitoring the quality of published performance information	Data quality audit	Yes
Maintaining a sound system of internal control	Use of Resources audit	Yes
Managing significant business risks objectives	Use of Resources audit	Yes
Managing and improving value for money	Use of Resources audit	Yes
Maintaining a medium-term financial strategy	Use of Resources audit	Yes
Ensuring that spending matches available resources	Use of Resources audit	Yes
Managing performance against budgets	Use of Resources audit	Yes
Managing the asset base	Use of Resources audit	Yes
Promoting and ensuring probity and propriety in the conduct of business	Use of Resources audit	Yes

Direction of travel statement

3.6 We are required to review the Council's latest direction of travel statement in order to satisfactorily conclude on three of the Code criteria (see table above). In completing this work we are not required to re-perform the work of the corporate assessment team and the Relationship Manager rather we are looking to place reliance on this work.

3.7 Our assessment is based on the latest direction of travel statement published in March 2008. Based on this work, we assess the Council as having at least adequate arrangements for objective setting, consultation and performance management.

Data quality audit

3.8 The audit work that we have used to reach our conclusion in respect of Code criterion on published performance information is our audit of the Council's corporate management arrangements for data quality.

3.9 Our review of data quality management arrangements has not identified any significant issues and supports our conclusion that the Council's arrangements are adequate for monitoring the quality of published performance information. We will report more fully on data quality at the December Corporate Governance Panel.

Use of resources

3.10 The audit work that we have used to reach our conclusion in respect of the remaining VFM Code criteria is our audit of the Council's Use of Resources.

3.11 The results of this work confirm that that, for 2007/08, the Council have at least adequate arrangements in place in the areas covered by the Use of Resources assessment.

3.12 We are not able to formally report scores to the Council until after the Audit Commission's national quality assurance processes are complete. We will report the results of our work and confirm scores with the Council in November 2008.

KLoE 2009

3.13 There have been significant changes to the use of resources assessment criteria for 2009, as part of the new Comprehensive Area Assessment. The Council's management arrangements for the 2008/09 financial year will be assessed against the new criteria that represent a 'harder test.'

3.14 Whilst we will not formally assess the Council against the new criteria until Summer 2009, as part of next year's plan, we will continue to carry out our use of resources work with reference to revised requirements to help the Council prepare for future assessments.

Next steps

3.15 We will carry out our final review against any emerging findings and will then issue our VFM conclusion by the 30 September deadline.

3.16 The Corporate Governance Panel should monitor implementation of the recommendations included in this report.

Appendix A Action plan

Finding	Actions required	Management response	Implementation details
<u>Journals</u> We noted as part of the audit that an amount of £438k had incorrectly been posted to the sales ledger. It should have been posted to reserve debtors. This has resulted in an increase in receipts in advance of £438k and a decrease in debtors of the same amount. We note that there is no authorisation or review process in place at the Council in respect of journals which can be posted by all accountancy staff. There is therefore an increased risk of errors or other misstatement arising from journal processing.	All journal entries should be reviewed and signed off by an independent officer prior to processing.	Despite the error highlighted it is still considered that general independent checking of journals is not appropriate given: • the experience and knowledge of the accountancy team • only the accountancy team can create journals. Consideration will be given to whether there are any particular types of journals (e.g. significant impact on the final accounts) that should be checked or subsequently reviewed.	Consideration and any resulting implementation by end of October 2008.
<u>Declaration of Interests</u> As part of our audit procedures it has been identified that not all Members or senior officers of the Council had submitted an annual declaration of interests return.	All Members and Senior Officers should be reminded of their responsibility to submit an annual declaration of their interests and missing declarations be obtained from existing Members and Officers.	Already actioned.	

Appendix B Accounts adjustments agreed

Accounting adjustments that affect the reported surplus / deficit on the I&E account	
Finding	**Impact**
The Council had not accounted for £540,000 of revenue expenditure on housing services. This related to money transferred from an earmarked S106 reserve which was spent on housing services. The adjustment is significant has increased the in-year deficit on the income and expenditure account by the same amount. It has not, however, impacted on the general fund balance as because of the nature of the transaction	Increase in deficit on I&E account by £540,000 from £9,765k to £10,305k.

Accounting adjustments that do not affect the reported surplus / deficit on the I&E account	
Finding	**Impact**
Note 13: Tangible Fixed Assets: Amounts included in the adjustments line of the Table have been incorrectly classified and require amendment.	No impact on total value of adjustments - misclassifications.
Note 20: Debtors An amount of £438,000 was incorrectly posted to the sales ledger and subsequently included in the debtors disclosure within the draft financial statements. This amount should have been included as a receipt in advance.	General debtors to increase to £2,896k Receipts in Advance to increase to £1,300k
Note 29: Contingent Assets and Liabilities A contingent liability has been included in the accounts in respect of VAT payable on off-street parking. The Council has also included a creditor in its accounts in respect of this for the sum of £315k. As the Council has accounted for the sum it is not considered appropriate to also include it as a contingent liability. This should be removed from the note.	No impact on reported financial results.
Financial Instruments No disclosures were included in the approved accounts in respect of financial instruments. The Council has now produced these disclosures.	No impact on reported financial results.

Disclosure adjustments
A number of disclosure adjustments have been agreed to improve the clarity and presentation of the accounts that do not affect the reported financial position.

Appendix C Reports issued

External audit reports issued during the year are listed in the table below.

Report title	Date issued
Audit and inspection plan 2007/08	May 2007
Use of Resources audit report 2006/07	January 2008
Data Quality audit report 2006/07	March 2008
Audit Strategy Document	May 2008
Annual report to those charged with governance (accounts and use of resources)	September 2008

Appendix D Audit fees update

Audit area	Planned fee 2007/08 £	Actual fee 2007/08 £
Financial Statements - includes fee for audit of leisure centres	59,810	59,810
Use of Resources, including Data Quality	34,400	34,400
Whole of Government Accounts	2,870	2,870
Total	**97,080**	**97,080**

Code of Practice audit

As shown in the table above, the 2007/08 actual fee equalled the planned fee.

Grant claims certification

Grant claim certification work will be completed between September and December 2008. The certification fee was originally estimated at £25,000.

Our work is charged to the Council based on the cost of certifying each claim and the overall fee normally varies from estimate, depending on the number and complexity of claims to be certified, as well as the quality of claim compilation and supporting documentation.

We will update the Council on the final fee charged for 2007/08, in the grant claims report that we will produce in January 2009.

Non Code work

We have not carried out audit work outside of the Code of Audit Practice audit in 2007/08.

Appendix E Statement of responsibilities - accounts

The accounts, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.

It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions
- maintain proper accounting records
- prepare accounts that present fairly the financial position of the body and its expenditure and income.

The audited body is also responsible for preparing and publishing with its accounts a statement on internal control.

Auditors audit the accounts and give their opinion, including:

- whether they present fairly the financial position of the audited body and its expenditure and income for the year in question
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

Subject to the concept of materiality, auditors provide reasonable assurance that the accounts:

- are free from material misstatement, whether caused by fraud or other irregularity or error
- comply with statutory and other applicable requirements
- comply with all relevant requirements for accounting presentation and disclosure.

Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

Auditors evaluate significant financial systems, and the associated internal controls, for the purpose of giving their opinion on the accounts. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

Auditors review whether the Annual Governance Statement has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the accounts and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. Auditors are not required to consider whether the statement on internal control covers all risks and controls, nor are auditors required to form an opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

Appendix F Statement of responsibilities - VFM

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives
- determining policy and making decisions
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community
- ensuring compliance with established policies, procedures, laws and regulations
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working
- ensuring compliance with the general duty of best value, where applicable
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body
- monitoring and reviewing performance, including arrangements to ensure data quality
- ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements.

Auditors are responsible for reporting annually their conclusion, having regard to relevant criteria specified by the Audit Commission, as to whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are effective.

In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.

When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type
- other risks that apply specifically to individual audited bodies
- the audited body's own assessment of the risks it faces
- the arrangements put in place by the body to manage and address its risks.

In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work
- the results of assessments of performance carried out by the Commission
- the work of other statutory inspectorates
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision making arrangements of the audited body.

While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

Auditors are not required to report to audited bodies on the accuracy of performance information that the audited bodies publish. Auditors' work is limited to a review of the systems put in place by the audited body to collect, record and publish the information, in accordance with guidance issued by the Commission.

Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.