



## **Huntingdonshire District Council**

Annual Audit Letter 2009/10

November 2010

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# 1 Introduction and Key Messages

## **Purpose of this Letter**

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work that we have carried out at Huntingdonshire District Council (the Council) during our 2009/10 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](http://www.audit-commission.gov.uk) and also on the Council's website.

## **Responsibilities of the external auditors and the Council**

- 1.2 This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).
- 1.3 We have been appointed as the Council's independent external auditor by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks, when reaching our Code conclusions.
- 1.5 It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

## **What this Letter covers**

- 1.6 This Letter covers our 2009/10 Code audit, including key messages and conclusions from our work on:
- auditing the 2009/10 year end accounts (Section 2)
  - the accuracy of grant claims and returns to various government departments and other agencies (Section 2)
  - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3).
- 1.7 A list of all the reports issued during the year is provided at Appendix A. Appendix B sets out our actual and budgeted fees for 2009/10.

## **The Economy**

- 1.8 In the current financial climate, the Government's most urgent priority is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £6 billion are planned from Government spending during this financial year, including some £1.1 billion in reduced grants to local government. At the same time, the Government aims to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:
- abolishing Comprehensive Area Assessment
  - reducing ring-fenced central government grants
  - abolishing LAA performance targets
  - undertaking a full review of local government finance.
- 1.9 The October Spending Review (SR) will have a significant impact on the Council, its plans and its finances. The SR announced a 28% cut in DCLG grants to local authorities, estimated job losses within the public sector at 490,000 and £7bn of savings are required to be made to the welfare budget, mainly through benefit cuts. Cuts are being front-ended with the greatest reductions being required in the first year of the SR period. The June Budget announced the Government's intention to work with local authorities to freeze council tax in England in 2011-12. The SR announced that local authorities who freeze their council tax in 2011-12 will have the resultant loss to their tax base funded at a rate of 2.5% for 4 years.
- 1.10 This Annual Audit Letter has been written in the context of the significant change agenda in which the Council is operating. The Council needs to deliver savings of approximately £10m over a five year period including £2.8m in 2010/11. The Council has started work on identifying the savings required for 2010/11 and delivery of these will be critical and require strong leadership from the Council at officer and member level. The challenge is unprecedented in the history of the Council and will require sustained focus and must be supported by the appropriate capacity to deliver the savings.

## **Key areas for Council action**

- 1.11 We have set out below, the key areas where action should be taken by the Council to further improve its arrangements during 2010/11:
- The Council will be unable to assess the real impact of the October Comprehensive Spending Review (CSR) until the grant figures are published in early December. The Council has identified the need to make a minimum of £6.4m savings over the four year period to 2014/15; however, it is estimating that this requirement could rise to £10m unless the new homes reward grant is significant. Whatever the result, major levels of savings will still be required. This will be a major challenge and critical to it achieving this will be the strength of its strategic financial planning arrangements and the deliverability of its savings plans. The Council will need to consider the services it delivers and how it delivers them and where savings and changes can be made whilst minimising the impact on the standard of service delivery.

- As part of its savings plans, the Council is planning to reorganise its management structures. The Council has a voluntary redundancy scheme in place and the Chief Executive's application has been recommended by the Employee Selection Panel and considered by Cabinet, and is shortly to be considered by Council. Given the financial challenges facing the Council, it is critical that the Council acts quickly to ensure there are effective and strong leadership arrangements in place to lead the Council through the delivery of its savings plans over the forthcoming months and years.

1.12 The context for these key messages can be found in this Letter.

## 2 Audit of Accounts

### Introduction

- 2.1 We issued an unqualified opinion on the Council's 2009/10 accounts on 28 September 2010, ahead of the statutory certification deadline. Our opinion confirms that the accounts give a true and fair view of Council's financial affairs at 31 March 2010 and of its income and expenditure for the year.
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to those charged with governance (defined as the Corporate Governance Panel at the Council). We presented our Annual Report to those Charged with Governance to the Corporate Governance Panel on 28 September and summarise only the key messages in this Letter.

### Audit of the accounts

- 2.3 The Council produced its accounts in line with the deadline of 30 June. We were presented with the draft financial statements on 30 June 2010 and working papers were provided in accordance with the agreed timetable for audit.
- 2.4 Our audit highlighted a number of issues in respect of accounting for fixed assets including revaluations and the classification of assets in the Council's records. These issues were fully discussed with the Council and adjustments were made to the financial statements. Full details are set out in our Annual Report to Those Charged with Governance.
- 2.5 Accounting for fixed assets will be a key audit issue in 2010/11 with the transition to IFRS accounting. The Council should use the exercise of restating its 2009/10 accounts to IFRS to address these issues.

### Financial performance

- 2.6 The Council reported an underspend of £1.9m primarily due to extra interest and one-off additional items relating to government specific grants and recovery of VAT against its agreed 2009/10 budget, which it has placed in a special Reserve intended to meet any future one-off costs of achieving the savings required over the next few years. After the creation of this reserve the Council reported a favourable variance of £74k .
- 2.7 The revenue budget monitoring report as presented to September Cabinet highlights that forecast outturn will be £966k below the approved budget which potentially reduces the contribution from the general reserve to £3.7m. It is essential that the Council continues to closely monitor its financial performance throughout 2010/11 and takes appropriate and timely action to address any adverse variances to planned spending that occur.
- 2.8 The current economic climate has placed significant pressure on the public sector and local government in particular, to generate efficiencies and operate within reduced resources. The Council has already planned to meet its budget deficits over the next three years from its revenue reserves and savings; however, following SR, the gap that needs to be met has increased. It is imperative that the Council continues to regularly review its medium term financial plan in the light of public sector spending pressures.

### **Financial systems**

- 2.9 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that presented a material risk to the accuracy of the financial statements.
- 2.10 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2009/10 accounts. We also performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that would adversely impact our audit of the accounts.

### **Annual Governance Statement**

- 2.11 We examined the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and considered whether the statement was in accordance with our knowledge of the Council. Our work confirmed that the AGS was consistent with our knowledge of the Council and no issues arose from our work.

### **Grant Claims and Returns**

- 2.12 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 2008/9 certification work we concluded that the Council had good overall arrangements in place.
- 2.13 We are currently in the process of certifying the 2009/10 grant claims and returns. Once this work is completed we will report in full on the findings of our work.

## 3 Use of Resources

### **Introduction**

- 3.1 We issued our annual VFM conclusion on 28 September 2010, at the same time as our accounts opinion, and ahead of the required deadline. We concluded that, for 2009/10, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.
- 3.2 Prior to giving our VFM conclusion, we set out the basis of this conclusion and the results of our assessment against the use of resources framework, in our report presented to the Audit Committee on 28 September. In this Letter, we summarise the key messages from this work alongside relevant findings.

### **2009/10 VFM conclusion and UoR assessment**

- 3.3 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. 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.
- 3.4 Our 2010 Value for Money conclusion has been informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009/10 Audit Plan.
- 3.5 The key messages from our review of the Council's arrangements are:
- The Council has identified weaknesses in compliance with its Code of Procurement and contract management. A number of actions were implemented which have resulted in improvements.
  - In common with many local authorities, the Council is experiencing significant financial pressures and having to revisit its short to medium term financial plans. The Council has already planned to meet its budget deficits over the next three years from its revenue reserves; however, it is anticipated that reduced funding is likely to increase the gap that needs to be met. This means that unless resulting gaps are addressed through savings or other means, reserves will be used up more quickly than planned. It is imperative that the Council reviews its medium term financial plans in light of public sector spending pressures.
- 3.6 The main areas where further action is required by the Council include:
- taking immediate action to review its short to medium term plans for using its revenue reserves to support spend, identify revised budget deficits and how these will be met if reserves are not available to fund the gaps, and
  - developing detailed and realistic savings plans. These plans should be developed to include the findings of service reviews and the outcomes of the budget consultation which is currently in progress.
- 3.7 On the basis of the work completed, we issued an unqualified Value for Money conclusion..



## 4 Closing Remarks

- 4.1 This Letter was discussed and agreed with the Director of Commerce and Technology and presented to the Corporate Governance Panel 8 December 2010.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit.
- 4.3 As members will be aware, 2009/10 marks the end of our appointments as auditors at the Council after a period of 5 years. We have very much enjoyed working with the Council and hope to work with you again in future years.

**Grant Thornton UK LLP**  
**November 2010**

## A Reports Issued

<b>Report</b>	<b>Date Issued</b>
Audit Plan	December 2009
Annual Report to those Charged with Governance	September 2010
Value for Money Report	September 2010
Annual Audit Letter	November 2010
Grant Certification Report	January 2011

## B Audit and Other Fees

<b>Audit Area</b>	<b>Budget 2009/10 £</b>	<b>Actual 2009/10 £</b>
Financial statements	59,554	59,554
VFM conclusion / Use of resources	46,378	46,378
Total Code of Practice fee	105,932	105,932
Certification of grant claims and returns*	20,000	tbc
<b>Total fees</b>	<b>125,932</b>	

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



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