

# Annual Audit Letter

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Harborough District Council

Audit 2009/10

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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## Summary

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements: the audit of your financial statements (pages 3 to 4) and my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 8).**

### Audit opinion and financial statements

- 1 I issued an unqualified opinion on the Council's 2009/10 financial statements on 22 October 2010. The opinion was delayed in order to allow me to consider additional evidence to support the Council's accounting treatment of the VAT shelter.
- 2 The financial statements presented for audit contained two material errors. These related to the new accounting requirements for collection fund debtors and creditors.
- 3 The Council is on track to produce IFRS-compliant accounts for 2010/11 by 30 June 2010.

### Value for money

- 4 I issued a qualified, except for, value for money conclusion on 22 October 2010. I concluded that in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for managing its risks and maintaining a sound system of internal control.

### Current and future challenges

- 5 Across the country, councils face severe and long-term social and financial challenges over the next few years.
- 6 District councils have already had to deal with reduced income from fees and charges. Councils have in-year cuts in government grant from 2010/11 and now face an approximate 26 per cent reduction in central government funding over the next four years following the Government's Comprehensive Spending Review.
- 7 For councils, the challenge will be to manage services as income from central government falls and to make tough choices on how services are to be delivered within reduced allocations as there will be few opportunities to raise income from fees and charges until the economy strengthens.

## Financial systems and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds. I gave an unqualified opinion on the Council's 2009/10 financial statements on 22 October 2010.**

### Overall conclusion from the audit

**8** I issued an unqualified opinion on the Council's 2009/10 financial statements on 22 October 2010. The financial statements presented for audit contained two material errors. These related to the new accounting requirements for collection fund debtors and creditors.

**9** The opinion was delayed to allow me to consider additional evidence from the Council supporting its view that receipts from the VAT Shelter that Council entered into after transferring its housing stock to Seven Locks Housing could be treated as revenue.

**10** Advice from the Audit Commission was that such receipts were normally capital receipts but the circumstances in each case needed to be fully considered. The Council has received £989,000 so far from these receipts so the amount involved was material.

**11** After considering the additional evidence I accepted officers' view that the income should be treated as revenue and issued an unqualified opinion on your financial statements.

### Significant weaknesses in internal control

**12** I did not identify any significant weaknesses in your internal control arrangements.

## Readiness for IFRS

**13** During the year, I reviewed the Council's preparations for the introduction of International Financial Reporting Standards (IFRS) from 2010/11.

**14** I found that there was some slippage against the project plan, but that Officers expect to have a restated set of 2009/10 IFRS accounts by the end of November 2010, and are on target to produce IFRS compliant accounts for 2010/11.

## Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

### 2009/10 use of resources assessments

**15** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**16** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**17** I report the significant findings from the work I have carried out to support the vfm conclusion.

### VFM conclusion

**18** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**19** I issued a qualified, except for, value for money conclusion on 22 October 2010. I concluded that in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for managing its risks and maintaining a sound system of internal control.

**20** This is a summary of my findings.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	No
<b>Managing resources</b>	
Natural Resources	Yes
Workforce	Yes

**21** I reported my conclusions on each of the relevant areas to the Council in my Annual Governance Report but the key findings are summarised below.

### Managing finances

**22** The Council has continued to operate under financial pressures and, as in 2008/09, its focus has been on achieving a balanced budget whilst maintaining services. The 2010/11 budget was set in the context of the three year medium term financial strategy (MTFS) which has been updated to reflect the current economic climate. Outstanding debt continues to be above target. A strengthening of outstanding debt procedures and a reduced level of debt could help ease financial pressures.

**23** The Council continues to have a sound understanding of costs overall. But staff cuts such as the reduction in the size of the management team have impacted upon capacity which will need to be managed. The 2009/10 efficiency target was achieved. Profiled budgets have been introduced and the Council has improved the content of its budget monitoring reports. Internal financial monitoring has been timely.

## Governing the business

**24** Commissioned services continue to provide efficiencies. Greater care is needed to ensure that any delays in procurement and letting of contracts are better risk managed and more openly and formally reported in future. Data quality is sound with additional training this year for managers and could be further enhanced by making quality assurance, and data sharing with partners, more consistent.

**25** The principles of good governance are in place in the Council but need to be developed further with partners. Internally these have been enhanced by introducing a CIPFA compliant audit committee. Management of the Council's own risks is generally sound and reinforced with a new risk management strategy but partnerships risks are not so actively managed. The Council's arrangements did not ensure an effective performance bond was in place for the first three months of the environmental services contract which commenced in April 2009. The Council has reviewed the circumstances leading to this itself and is intending to learn lessons from this. The Council has sound counter fraud and corruption arrangements, but these do not extend to partnerships in the same degree.

## Managing resources

**26** The Council has committed to reducing its impact on the environment and it has set a baseline for carbon use and targets for reduction. It is actively involving councillors and staff in its reduction programmes. It works with partner agencies to reduce land contamination and requires contractors to use greener vehicles. The Council has not yet shown the impact of these measures. The Council has implemented its pay and grading review and is taking steps to balance the age profile of its workforce

## Environmental Services Contract

**27** To support my review of the vfm criteria, and following representations from local government electors, I considered the Council's arrangements for the letting and signing of the environmental services contract, including the Council's own scrutiny report on the issue which was presented to the Scrutiny Panel - Resource and Development on 9th September. The contract is worth approximately £28 million over 7 years.

**28** My investigations did not conclude that there were any significant overall failures in the process for considering bids or in the standard of service received since the contract has been in place. Indeed the Council was liaising with the new contractor in the lead up to the start of contract to ensure continuity of service on handover.

**29** There were however two areas where I felt arrangements were not adequate relating to:

- not having a performance bond in place for the first 3 months of the contract; and
- insufficient reporting to members of the position at the time.

**30** In my Annual Governance Report I made recommendations to improve these areas in the future. The Council has also completed its own review of the arrangements and has committed to learning lessons for the future.

### **Approach to local value for money work from 2010/11**

**31** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**32** My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**33** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

## Current and future challenges

### Financial position

**34** Across the country, councils face severe and long-term social and financial challenges over the next few years. Demand for local services is growing and demographic change, particularly an ageing population, places increased pressure on local services.

**35** District councils have already had to deal with reduced income from fees and charges. Reduced economic activity has cut income from planning fees, rents, car park charges and capital receipts. Councils have in-year cuts in government grant from 2010/11 and, following the Government's Comprehensive Spending Review (CSR), face an approximate 26 per cent reduction in central government funding over the next four years with the biggest reduction coming in the earlier years.

**36** The government plans to eliminate the structural deficit by 2015/16. Public spending will have to fall and councils are expected to play a major part in helping to reduce the deficit.

**37** Some of the reforms announced in the CSR include:

- a settlement for local government that increases local authorities' freedom to manage their budgets;
- the devolution of financial control to local authorities. Ring fencing of the majority of local government revenue grants will end from 2011/12 and, nationally, more than £4 billion of revenue grants will be rolled into formula grant;
- funding to enable local authorities to freeze their council tax in 2011/12; and
- a 10 per cent reduction in spending on council tax benefit.

**38** For councils, the challenge will be to manage services as income from central government falls and to make tough choices on how services are to be delivered within reduced allocations as there will be few opportunities to raise income from fees and charges until the economy strengthens.

**39** The Council is continuing with its budget initiatives and when more detail is available regarding the specific impact on Harborough District Council of the CSR will evaluate the potential financial impact, and reflect this in its financial planning.

**40** At the same time, the Government is ending the previous top-down performance framework for councils including the requirement to report nationally on local area agreement targets. The Government is to work with councils to reduce the amount of data local government is asked to collect by central government, and develop a single, comprehensive list, to be reviewed annually.

## **Future developments**

**41** The Council is entering into a shared service agreement for Revenues with two other Leicestershire districts in 2011/12. It is anticipated that this will generate significant revenue savings.

**42** The final operating agreement is yet to be determined, but this should contain provisions for internal audit coverage and rights of access by both internal and external auditors. The Council will need to ensure governance arrangements remain effective and roles and responsibilities continue to be delivered while the changes are made and until the new arrangements are properly embedded.

## Closing remarks

**43** I have discussed and agreed this letter with the Chief Executive and the Deputy Chief Executive. I will present this letter at the meeting of the Executive on 17 January 2011.

**44** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit plan	13 June 2010
Annual governance report	20 September 2010
Opinion on financial statements	22 October 2010
Value for money conclusion	22 October 2010
Annual audit letter	November 2010

**45** The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Neil Bellamy  
District Auditor  
November 2010

## Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	67,858	67,858	
Value for money	23,142	23,142	
<b>Total audit fees</b>	<b>91,000</b>	<b>91,000</b>	

## Appendix 2 Glossary

### **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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