

South Derbyshire District Council

Annual Audit Letter 2008/09

22 December 2009

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1 Introduction

1.1 Purpose of this letter

The purpose of this Annual Audit Letter ('letter') is to summarise the key issues arising from the work that we, Grant Thornton UK LLP, have carried out to the year end 31 March 2009 at South Derbyshire District Council (the Council).

This letter is intended to communicate the significant issues we have identified, in an accessible style, to the Council and key external stakeholders, including members of the public. The letter should be published on the Council's website.

1.2 The scope of our work

Our main responsibility as your external auditors is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ('the Code'). Under the Code, we are required to review and report on:

- the Council's accounts; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Council.

1.3 Key audit outcomes for 2008/09

- We held a seminar on key accounting issues for 2008/09 at our Birmingham office;
- We provided a workshop and seminar explaining the implications of the new Use of Resources assessment;
- We issued an unqualified opinion on the Council's accounts;
- We issued an unqualified opinion on the Whole of Government Accounts consolidation pack;
- We issued an unqualified value for money conclusion; and
- We recognised the Council was performing well in its use of resources.

1.4 Acknowledgements

We would like to formally record our appreciation for the work carried out by the Council's finance team. Their efforts, and their assistance provided to us in completing our audit, should be highly commended.

1.5 Appendices

A list of all significant recommendations issued to the Council through the 2008/09 audit is provided at Appendix A. Our responsibilities, as your external auditor, are set out at Appendix B and we set out our budgeted and actual fees at Appendix C. We demonstrate, at Appendix D, how the significant risks raised in the Audit Plan, as presented to the Audit Sub-Committee on 25 September 2008, have been concluded during 2008/09.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from: www.audit-commission.gov.uk.

2 Audit of accounts

2.1 Key issues arising from the audit of the accounts

We issued an unqualified audit opinion on the Council's accounts on 30 September 2009, thereby meeting the required deadline. Our opinion confirms that the accounts present fairly the Council's financial affairs and of the income and expenditure for the year ended 31 March 2009.

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to the Council's Audit Sub-Committee. A detailed report was presented to the Audit Sub-Committee on 30 September 2009 and only the key issues are summarised here.

2.2 Key issues

The overall quality of the Council's working papers to support the 2008/09 accounts was of a continuing good standard and the Finance & Management Committee approved the accounts by 25 June, in advance of the 30 June 2009 deadline.

The quality of the accounts remained high, although our audit identified the following significant matters:

Fixed Asset Register

The Council implemented a new asset management system during 2008/09 which resulted in a number of issues being noted during the course of our procedures. However, despite the issues that were identified, the carrying value of tangible fixed asset shown in the asset management system did reconcile in total to the Statement of Accounts at 31 March 2009.

Unadjusted misstatements

There were two unadjusted misstatements in the accounts as follows:

- we identified that estimated figures included in the financial statements relating to subsidy income and payments due to the National Non Domestic Rates pool differed from the actual final claim figures. The impact on the Collection Fund disclosure for Council Tax Benefit income was £38,000 and for National Non Domestic Rates was £14,000; and
- we identified that 6 Council Dwellings had been revalued to disposal proceeds immediately prior to disposal, resulting in the revaluation reserve being overstated by £149,000 and the gain on disposal of fixed assets within the Income and Expenditure Account being understated by the same amount.

2.3 Whole of Government Accounts (WGA)

We reviewed and reported on the Council's WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The pack was submitted to the Department of Communities and Local Government on 2 October 2009, after the due date of 1 October 2009.

2.4 National Fraud Initiative (NFI)

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between audited bodies to prevent and detect fraud.

We discussed all accounts matters with the Audit Sub-Committee on 30 September 2009. We confirmed there was no impact on the General Fund for any of the unadjusted misstatements.

This includes police authorities, local probation boards and fire and rescue authorities as well as local councils.

As part of the audit of accounts, we examined specific data matches produced by the Audit Commission that cross referenced Council data to matches at Companies House. We did not identify any significant issues in this area.

2.5 Members' expenses

Due to the increased profile and news coverage surrounding elected politicians' expenses, we examined a sample of Members' and Officers' expenses as part of our work on the Council's 2008/09 Statement of Accounts. We are able to confirm that there were no issues that we wish to bring to the Council's attention on this matter.

2.6 Dealing with the public

As part of audit, we have a responsibility to deal with issues that are brought to our attention by members of the public or other interested parties in relation to the financial activities or governance of the Council, or disclosures to the Audit Commission under the Public Interest Disclosure Act 1998.

There were no such issues that were brought to our attention during the course of our audit and no person exercised their rights to raise an objection on the Council's 2008/09 statement of accounts.

2.7 Certification of grant claims

We are required, acting as agents of the Audit Commission, to certify the Council's grant claims and returns.

We have already completed the certification of the majority of the Council's claims for 2008/09 and have met all government department deadlines set under these arrangements. Our certification work is expected to be completed by the end of December 2009 after which we will prepare a separate grants report, summarising issues from the 2008-09 work, to facilitate continuous improvement.

3 Use of resources

3.1 Value for money conclusion

We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the use of resources conclusion and is generally informed by reference to relevant criteria under the Audit Commission Code of Audit Practice.

We can confirm that we were able to issue an unqualified use of resources conclusion for the year end 31 March 2009. This means that we were satisfied that the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

3.2 Use of resources (UoR)

In 2009, the Audit Commission introduced a new framework and methodology for Use of Resources (UoR) assessments across local government, police forces, fire authorities and primary care trusts. The new framework emphasises *outcomes* over *processes*, and brings new areas into the assessment such as environmental and workforce management. The new assessment presents a more robust challenge than the old framework, based on different scoring criteria.

Theme	2009
Managing finances	3
Governing the business	3
Managing resources	2
Overall	Performing well - 3

The provisional findings from our 2008-09 UoR assessment were reported to the Audit Sub-Committee in September 2009, as part of our report to those charged with governance (ISA260 report). We are pleased to report that, subsequent to our ISA260 report, these provisional scores were confirmed following the Audit Commission's national quality assurance process and are reported in more detail in our UoR report for 2008/09.

Managing finances

This theme focuses on assessing whether the Council has sound strategic and financial management, that is, whether it plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance, and whether its financial reporting is timely, reliable and meets the needs of its population. We assessed the Council and awarded an overall theme score of three, concluding that it is performing well.

Governing the business

This theme focuses on strategic commissioning and good governance, in particular how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people. We assessed the Council as achieving an overall theme score of three, performing well.

UoR Scores
 1 - below minimum requirements - inadequate performance
 2 - at minimum requirements - adequate performance
 3 - consistently above minimum requirements - performing well
 4 - well above minimum requirements - performing strongly

Managing resources

This theme considers areas which have not, previously, been assessed on their own in detail. There are three elements to this theme, but only workforce was assessed in 2008/09. We considered the arrangements and outcomes in place to ensure the Council effectively manages its workforce as being adequate, level two. There are a number of areas to be addressed in this area, in particular, the Council needs to agree the local pay and grading review and implement the local pay structure.

Use of natural resources and strategic asset management are the remaining two themes that will be introduced over the next two years.

Next steps

Key actions for the Council arising from our assessment include the following:

- demonstrating further reductions in costs and / or improvements in services as a result of the decision-making process;
- demonstrating a clear rationale for insourcing / outsourcing decisions for key services, focussing on achieving integrated social, economic and environmental outcomes;
- fully integrating its risk management processes and procedures to ensure a consistent corporate approach; and
- ensuring that it has sound arrangements in place to demonstrate that it is at least 'getting the basics right' for managing natural resources in 2009/10 (e.g. CO2 emissions, water consumption and air quality).

3.3 Looking ahead to 2009/10

The focus of our work in 2009/10 will be to support the Council's transition to International Financial Reporting Standards and to further develop its Use of Resources.

We will present our 2009/10 Audit Plan to the Audit Sub-Committee in due course, however, the following provides a short summary of the key risks we aim to address.

Financial Standing/Management

Financial health continues to be a key risk area for many authorities nationally, including South Derbyshire District Council. We will continue to monitor the Council's financial position during 2009/10 as part of our Use of Resources assessment and will pay particular attention to future proposals for restoring financial balance to the Housing Revenue Account.

SORP 2009 - Accounting for National Non Domestic Rates and Council Tax

The 2009 SORP has introduced a number of changes in the accounting for national non domestic rates and council tax in the Council's financial statements. It now requires local authorities to account for transactions on an agency basis. i.e. the Council only discloses its own share of debtors and creditors of the Collection Fund. There is a risk that the Council does not correctly account for these changes.

We will discuss and advise the Council on the new accounting requirements and provide feedback on any changes in disclosures that are needed to comply with the SORP.

International Financial Reporting Standards (IFRS)

From 2010/11 the Council is required to produce their Statement of Accounts under IFRS based on an IFRS Code of Practice on Local Authority Accounting prepared by CIPFA. As part of our procedures, we have discussed with the relevant officers their readiness for conversion to IFRS and the preparation they have undertaken to date. We are pleased to note that the Council are keen to make positive steps towards conversion and are looking at working in partnership with other Council's locally.

Our IFRS credentials ensure we are well prepared to assist the Council through this transition, and we will continue to work with your finance team to ensure the process is as smooth as possible.

A Medium priority recommendations

We did not raise any high priority recommendations in 2008/09. However, the following medium priority recommendations were raised:

Report (and issue date)	Recommendation
ISA 260 (September 2009) Asset Management System	<p>The Council should ensure that detailed reports, breaking down each asset category, are extracted from the asset management system when the notes to the accounts are prepared.</p> <p>The Council should also continue to investigate the reconciliation differences identified from the first year implementation of this new system.</p>
ISA 260 (September 2009) Bad Debt Provision	The Council should review the percentage rates applied each year to calculate bad debt provisions, against current collection patterns, to ensure the percentages remain appropriate.
ISA 260 (September 2009) Estimated Claims	The Council should include a review process for final claims and returns in the accounts production process for future years.

B Responsibilities of the external auditors and the Council

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas that involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. 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.

This report is part of a continuing dialogue between the Council and ourselves and is not, therefore, intended to cover every matter which came to our attention. For this reason we do not accept responsibility for any reliance that third parties may place on it. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices. The Council is asked to note that our audit should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist.

C Fees and audit reports

The table below compares the actual fees charged for out work in 2008/09 compared to the budgeted fees as set out in our revised Audit Plan.

	Budgeted (£)	Actual (£)
Audit of accounts	68,650	68,650
Use of resources	30,100	30,100
Total fees	98,750	98,750

We also set out the reports we have issued during 2008/09 in the table below.

Planned output	Planned delivery	Actual delivery
Annual Audit and Inspection plan	June 2008	September 2008
ISA260 Report to those charged with governance	September 2009	September 2009
Use of Resources Report	December 2009	December 2009
Annual Audit Letter	March 2010	December 2009
Grant Claims Report	January 2010	In progress

D Completion of the Audit Plan

The table below sets out the key risks in our 2008/09 Audit and Inspection Plan (September 2008) and how these were addressed and reported through the course of our work.

Area as reported in the Audit Plan	Audit response and outcome
<p>Efficiency savings</p> <p>The Council continues to seek efficiencies across its activities whilst looking to maintain or improving service levels. Tendering of existing contracts will contribute to these savings but further efficiencies are also being sought.</p> <p>There is a risk that the Council fails to secure value for money from the arrangements put in place. There is an additional risk that potential outsourcing, particularly with ongoing negotiations in relation to single status / equal pay awards, could result in the loss of key employees, adversely affect staff morale and, as a result, having an impact on the internal control environment.</p>	<p>We have continued to discuss emerging proposals with the Council, review plans developed to determine whether they represent good value for money and discussed the implications of any decisions on the internal control environment.</p> <p>We are pleased to note that the Council's latest efficiency statement identifies cumulative efficiency savings of approximately £1.2m by 2015 under CSR 07. Furthermore, it has been noted that an additional £25k per year may be attained if, as expected, the savings made on stationery and protective clothing in 2008/09 can be sustained over the planned period. This would generate approximately £150,000 between 2009 and 2015.</p> <p>In addition, we have been notified by the Council that other value for money gains might be achieved, for example through the proposed Corporate Services Partnering Project (due for implementation in April 2010) and the rollout of the new "purchase to pay" process which aims to build on previous efficiencies made from electronic ordering and payments.</p>

Area as reported in the Audit Plan	Audit response and outcome
<p>Financial standing/management</p> <p>The Council's medium term financial plan (MTFP) shows significant reductions in general fund reserves and the Housing Revenue Account (HRA), together with a funding gap in the committed capital programme, developing over the next five years. The long term forecast for the HRA identifies costs exceeding income by 2010/11 and negative reserves of £1.1m by 2017/18, although this may be offset by compensation for changes to rent restructuring from central government.</p> <p>Financial health continues to be a key risk area for many authorities nationally, including SDDC.</p>	<p>We have monitored the Council's financial position during the year as part of our Use of Resources assessment.</p> <p>We note that the Council's level of general reserves is currently healthy and, based on current forecasts, should remain so until 2011/12. However, as general reserves are projected to fall below the minimum level by 2012/13 with a negative balance by 2014, this potentially presents a significant risk to the Council. The risk is further enhanced as a result of the pressure on public finances at a national level, expectations for low council tax increases and access to traditional funding streams potentially being severely limited to the Council.</p> <p>Longer term, the HRA remains a concern and we are pleased to note that the Council is continuing to monitor both the medium and long term financial plan. This will continue to be an area of focus for the future.</p>
<p>Use of resources</p> <p>Comprehensive Area Assessment (CAA) will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there.</p> <p>The 2009 Use of Resources assessment will be aligned to CAA and the updated Key Lines of Enquiry (KLOEs) represent an enhanced challenge to the Council in terms of performance and evidence. This assessment will be funded from the 2009/10 audit fee.</p>	<p>We presented the changes in the regime to your officers at a training workshop in December 2008 and have been meeting regularly with our key contacts within the Council to ensure the new approach has become established as efficiently as possible. The UoR scores are taken into account by the Audit Commission in its organisational assessment of the Council under CAA and, as such, we have been working closely with the Audit Commission throughout the assessment period.</p> <p>Finally, as reported in Section 3 above, we completed the Use of Resources assessment under the new framework, where we judged the Council was performing well, scoring level 3.</p>

Area as reported in the Audit Plan	Audit response and outcome
<p>Asset Management Plan (AMP) The implementation of the Council's Corporate Disposals Policy and AMP has identified a number of assets which are surplus to requirements and available for disposal, or have development potential, as part of more a complex re-provisioning scheme. One of the projects currently being progressed involves the redevelopment of significant areas of Swadlincote town centre.</p> <p>There is a risk that the Council fails to secure value for money from its disposal programme, or lacks capacity to manage potentially significant projects effectively.</p>	<p>We have continued to discuss emerging proposals and ongoing plans with the Council throughout the year.</p> <p>We are pleased to note that the Council continues to utilise its Disposal Policy to identify surplus assets to fund future capital investment.</p> <p>We are continuing to monitor the Council's redevelopment projects and how it secures value for money from these arrangements.</p>
<p>Governance In previous years, auditors have considered corporate governance arrangements through their work on the Use of Resources. However, the Audit Commission has also identified some sector-based issues, in particular the implementation of the CIPFA / SOLACE framework for governance statements. To achieve good governance, the Council needs to be able to demonstrate that it is complying with the core and supporting governance principles contained in the Framework. There is a risk that these arrangements are not implemented effectively across the Council.</p>	<p>We have examined the Council's arrangements and process for compiling the Annual Governance Statement.</p> <p>We have also reviewed the Annual Governance Statement and we concluded that the statement for 2008/09 was in accordance with our knowledge of the Council and compliant with reporting requirements.</p>
<p>2008 SORP The 2008 SORP is currently under consultation and it is expected that there will be some presentational and disclosure adjustments that will impact on the 2008-09 accounts. There is a risk that the new requirements may not be met.</p>	<p>We held an accounts planning workshop for our local government clients in February 2009 to discuss the key issues arising from the 2008 SORP and identify relevant financial reporting risks. The Council was represented at this event.</p> <p>We are pleased to report that our compliance review of the 2008/09 accounts against the SORP 2008 identified fewer disclosure omissions and misstatements compared to our review in 2007/08, raising only minor disclosure amendments.</p>

Area as reported in the Audit Plan	Audit response and outcome
<p>Introduction of International Financial Reporting Standards CIPFA has confirmed that Local Authorities will be required to follow International Financial Reporting Standards (IFRS) from 1 April 2010. 2009-10 financial data will require restatement, to provide comparative data for the financial statements, with the 2008-09 balance sheet providing the opening position. Whilst this will not have a direct impact on our audit of the 2008-09 accounts, the Council needs have plans in place to ensure that it is adequately prepared for the forthcoming changes. There is a risk that the Council does not identify the future impact of these requirements on its medium term financial plans.</p>	<p>We have discussed the Council's preparations for IFRS conversion during our regular update meetings throughout the year. To assist the Council in identifying areas of focus, we held an IFRS workshop to highlight the key differences in reporting requirements, critical dates in the conversion process and potential planning and resource implications.</p> <p>During November 2009, we discussed in detail the Council's preparations for conversion as part of an Audit Commission study on the implementation of IFRS in local government. We 'RAG' rated the Council as 'Amber' (i.e. the Council has minor issues with its IFRS implementation) from this review as detailed preparations have only recently commenced, whilst recognising the resource implications of conversion for the finance team and the lack of complex issues, such as PFI, in the Council's accounts.</p>
<p>Internal Audit The Council's internal audit function is key to ensuring the Council operates a sound system of internal control.</p>	<p>We considered the work of Internal Audit as part of our assessment of the internal control environment and to assist in documenting the key financial controls in place. We did not identify any significant issues that we felt warranted reporting to the Council.</p>



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