



South Derbyshire District Council

Annual Audit Letter 2009/10

19 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 South Derbyshire 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 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).
- 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); and
 - 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, whilst 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; and
 - undertaking a full review of local government finance.
- 1.9 Council tax in England is also to be frozen for at least one year, with a possible freeze for a second year in partnership with local authorities.
- 1.10 Most recently, the Comprehensive Spending Review (CSR) announced annual cuts to the local authority budget of 7.1% over each of the next four years, along with cuts to other Central Government budgets that will impact significantly on the Council's finances, particularly in the latter years of the CSR. This comes at a time when South Derbyshire District Council has already had to devote considerable efforts to cost reduction and reorganisation, through its corporate services partnering project.
- 1.11 This Letter has been written in the context of the significant change agenda in which the Council is operating, including the need to deliver significant savings to achieve a year end balanced financial position for 2010/11.

Key areas for Council action

- 1.12 We have set out below the key areas where action should be taken by the Council to further improve its arrangements during 2010/11:
- Whilst the Council's medium term financial plans and strategy are considered to be sound, the Council will need to continue to ensure that a flexible approach is taken in respect of future financial planning. With the on going requirement to make significant savings across the activities of the Council, the need to identify and deliver new ways of increasing productivity and improving efficiency will become even more critical;
 - The Council needs to ensure that its workforce plan is designed to improve efficiency, productivity and value for money outcomes against local priorities; and
 - The Council's IFRS project plan to restate the 2009/10 accounts by 31 December 2010 is on track. The Council needs to ensure that this remains so as the end of the year approaches. We will review the revised opening balances as part of our interim audit next year so that any issues can be identified and resolved prior to the 2010/11 year end accounts process.
- 1.13 The context for these key messages can be found in this Letter. Officers have agreed to the implementation of these recommendations.

2 Audit of Accounts

Introduction

- 2.1 We issued an unqualified opinion on the Council's 2009/10 accounts on 30 September 2010, ahead of the statutory certification deadline. Our opinion confirmed that the accounts gave 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 issuing our opinion on the accounts, we were required to report significant matters arising from the audit to those charged with governance (defined as the Audit Sub-Committee at the Council). We presented our Annual Report to those Charged with Governance to the Audit Sub-Committee on 29 September and summarise only the key messages in this Letter.

Audit of the accounts

- 2.3 The Council performed well in producing a timely set of accounts against a tight timetable. The Council produced its draft 2009/10 accounts in advance of the 30 June 2010 deadline and presented them to the Finance and Management Committee on 29 June 2010. The overall quality of the Council's working papers to support the 09/10 accounts was of a continuing good standard.
- 2.4 It is pleasing to report that the quality of the accounts remained high, although our accounts audit identified the following matter:

Adjusting Post Balance Sheet Event - Fleming Claims

The Council submitted two 'Fleming claims', for the recovery of VAT, prior to the 31 March 2010.

During August 2010 the Council was notified that one of these claims had been agreed and settled. The second claim is still ongoing but the Council is optimistic that this will also be successful.

The settled claim resulted in a repayment of £139,000, with a further amount of £124,000 for accrued interest.

As the result of one claim was known, this was classed as an adjusting post balance sheet event, as the settlement confirmed conditions that existed at the year end date.

Officers made the decision to adjust the Statement of Accounts, resulting in current assets increasing by £263,000, with a corresponding reduction to the Income and Expenditure account deficit.

A contingent asset continued to be recognised in the financial statements for the unresolved Fleming claim that the Council is still awaiting clarification from HMRC.

Financial performance

- 2.5 In 2009/10, the actual outturn was a reduction in overall net revenue expenditure of approximately £793,000 compared to budget.
- 2.6 The level of general reserves at 31 March 2010 was £639,000 above the original budget estimate. Even after allowing for the £200,000 that the Council estimate need to be rolled forward to meet the interim costs associated with the pay and grading review, general reserves were £400,000 higher than anticipated in the Medium Term Financial Plan.
- 2.7 Despite this, the Medium Term Financial Plan still highlights a budget deficit in 2011/12 and a significant shortfall in capital resources to meet future commitments. Although, ongoing efficiency savings have already been identified to fund this deficit, and planned work is ongoing to realise capital receipts, the effect of the reduction in Central Government funding from 2011/12 still requires full consideration.
- 2.8 In October 2010 the Chancellor announced the Government Comprehensive Spending Review (CSR), which reduced local government funding nationally by 7.1% per annum, for each of the next 4 years, as well as cuts to other Central Government budgets that will impact significantly on the Council's finances, particularly in the latter years of the CSR. The precise implications for the Council will become clearer shortly, when the revenue grant settlement for 2011/12 is announced. The Council will therefore need to carefully consider the implications of the Central Government funding reductions for South Derbyshire District Council, as they emerge, for its medium term revenue and capital spending plans. It does, however, have a good base to respond to this challenge, given the efforts already made to put in place efficient structures and working arrangements.
- 2.9 The scale of the challenge faced has been recognised by Members, although, given the efforts to secure a stronger financial position already made, further savings may well be relatively difficult to realise. We will continue to keep the Council's financial position under review as part of our 2010/11 audit.

Review of Financial Reporting Controls

- 2.10 Our work in this area evaluates the design of the Council's controls, including relevant control activities, over risks that could lead to material misstatement in the financial statements, and determine whether they have been implemented. Emphasis is placed on identifying and obtaining an understanding of control activities that address the areas where we consider that material misstatements are more likely to occur.
- 2.11 In addition, for the areas identified as presenting a higher risk of material misstatement in the financial statements, we also evaluated the design of the Council's controls.
- 2.12 We found that the Council's processes over its key accounting systems and controls in these areas were generally sound with no material weaknesses.

Information Technology Control Environment

- 2.13 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.

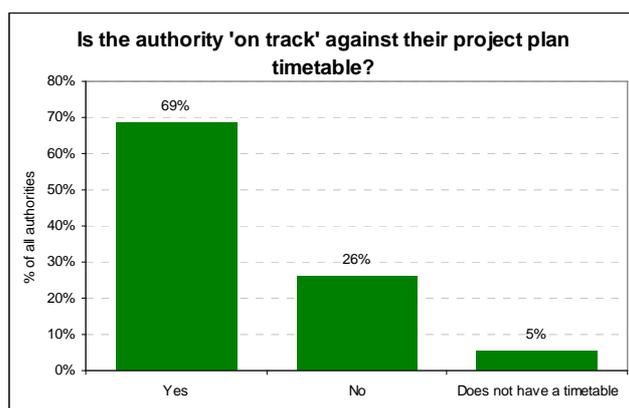
Annual Governance Statement

- 2.14 We have examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS). In addition, we read the AGS to consider whether the statement is in accordance with our knowledge of the Council.
- 2.15 We have concluded that the Council has good arrangements in place to compile the AGS and provide a strong audit trail for the Chief Executive and Leader to sign the statement.

International Financial Reporting Standards

- 2.16 The Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) from 2010/11. The IFRS transition at the Council is being led by the Head of Finance & Property and a clear project plan is in place.
- 2.17 A survey on IFRS progress was undertaken by the Audit Commission during July 2010. The survey indicated that whilst most authorities had made adequate progress against their project plans, nearly a third had not as can be seen in the following Exhibit.

Exhibit 1: IFRS Progress all authorities (source - Audit Commission)



- 2.18 Our work confirms that for South Derbyshire District Council, the Council has considered the requirements of IFRS transition and commenced the detailed work necessary to restate the 2009/10 accounts and prepare the 2010/11 accounts under IFRS in October 2010.
- 2.19 We will continue to work with the Council's finance team to ensure that arrangements are in place to support the effective transition to full IFRS for the 2010/11 Statement of Accounts. We will also continue to discuss with the Council the required accounting treatments under IFRS, where this will not compromise our independence, through sharing our experiences of IFRS transition from other public sector bodies and the commercial sector.

Grant Claims and Returns

- 2.20 We are required, acting as agents of the Audit Commission, to certify the Council's grant claims and returns.
- 2.21 We have already completed the certification of a number of the Council's claims for 2009/10 and have met all government department deadlines set under these arrangements. Our certification work is expected to be completed by the end of December 2010 after

which we will prepare a separate grants report, summarising issues from the 2009/10 work, to facilitate continuous improvement. At this stage, we consider that the key area for officers' attention, arising from our claims certification work, is likely to relate to Housing and Council Tax Benefits, which has been subject to qualification in prior years.

3 Use of Resources

Introduction

- 3.1 We issued our annual Value for Money (VfM) conclusion on 30 September 2010, at the same time as our accounts opinion, in line with 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 Sub-Committee on 29 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 VfM conclusion has been informed by work carried out on Use of Resources (UoR) 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 developments in the Council's arrangements include:
 - Improvement in understanding of costs and performance: In addition to the corporate performance monitoring framework, for the last 3 years, officers have demonstrated that the Council has utilised an Institute of Public Finance (IPF) report that analyses and compares spending and performance, to identify and then review areas where costs appear high; and
 - Improvements in achieving efficiencies: The Council has continued to seek and evaluate new ways of delivering services to achieve efficiencies, for example outsourcing its support services and collaborating with other councils. This should deliver substantial efficiencies in the future.
- 3.6 In common with most Councils, the most significant area for further development in the Council's arrangements is:
 - Improving the effectiveness of workforce planning arrangements: The Council needs to ensure that its workforce plan is designed to improve efficiency, productivity and VfM outcomes against local priorities.

The Council's recent corporate services contract with Northgate is, however, good evidence of the Council's forward thinking regarding its workforce.

- 3.7 Whilst the Council's medium term financial plans and strategy are considered to be sound, it will need to continue to ensure that a flexible approach is taken in respect of future financial planning. With the on-going requirement to make significant savings across the activities of the Council, the need to identify and deliver new ways of increasing productivity and improving efficiency will become ever more critical.
- 3.8 On the basis of the work completed, we issued an unqualified VfM conclusion.

Follow-up of Previous Reports

- 3.9 As part of our planned programme of work for 2009/10, we followed up the progress made by the Council in implementing outstanding recommendations from the previous years' ISA 260 report. This work was completed during our interim audit and the outcome was presented to the Audit Sub-Committee on 16 June 2010 in our Interim Audit Report.
- 3.10 At that time it was noted that good progress had been made with 2 of the 4 recommendations having been fully implemented. Two recommendations were still being actioned at the time of our interim audit and were expected to be fully implemented by August 2010.
- 3.11 The follow up procedures undertaken during our final accounts audit confirmed that action to address all recommendations had been duly completed.
- 3.12 In addition, we commend the Council's Audit Sub-Committee for having in place a detailed and robust approach to monitoring the implementation of external audit recommendations.

Approach to local VfM audit work from 2010/11

- 3.13 The Audit Commission has reviewed its work programme for 2010/11 onwards given the scale of the pressures facing public bodies in the current economic climate. As part of this exercise, the Commission has been discussing possible options for a new approach to local VfM audit work with key national stakeholders.
- 3.14 From 2010/11 we will apply a new, more targeted approach to our local VfM audit work. This will be based on a reduced number of reporting criteria specified by the Audit Commission, concentrating on:
- securing financial resilience; and
 - prioritising resources within tighter budgets.
- 3.15 We will determine a local programme of VfM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VfM audit work. Instead we will report the results of all the local VfM audit work and the key messages for the audited body in our annual report to those charged with governance and in the Annual Audit Letter.

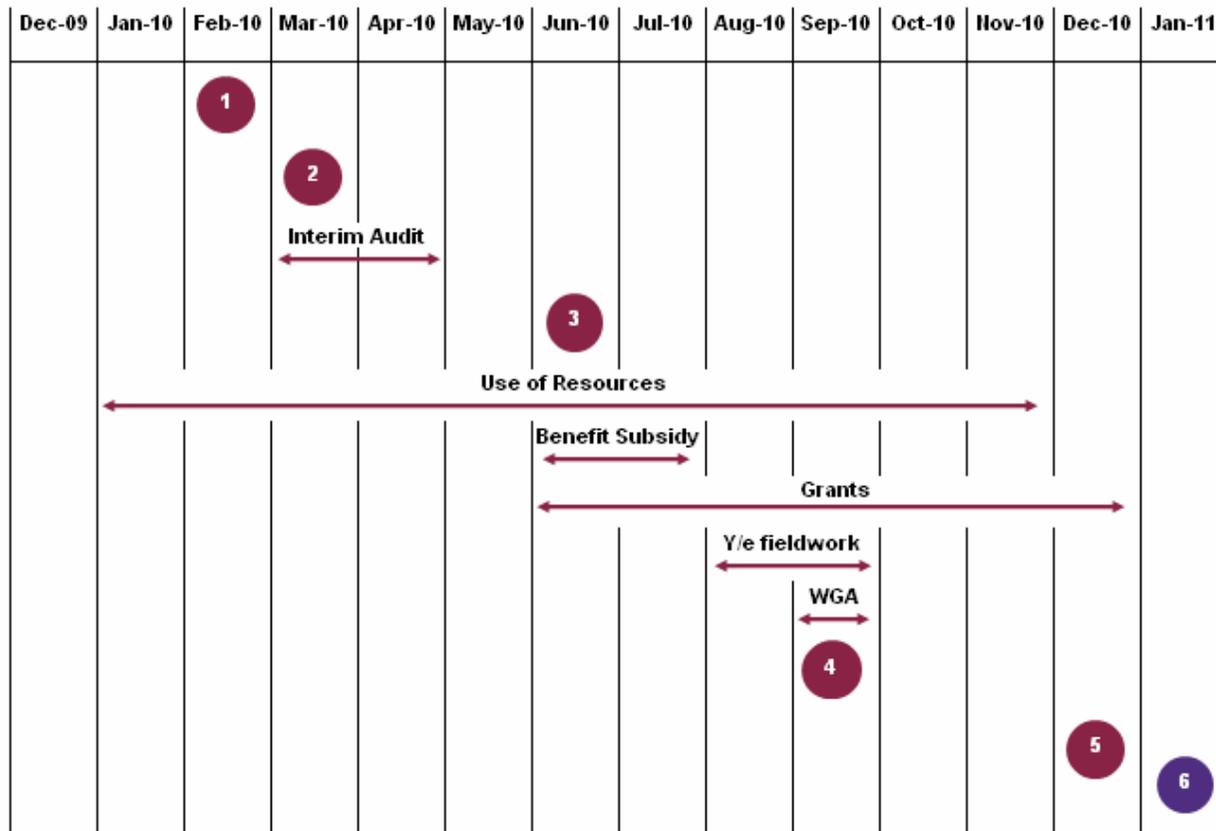
4 Closing Remarks

- 4.1 This Letter was discussed and agreed with the Chief Executive and Head of Finance & Property and presented to the Audit Sub-Committee on 15 December 2010.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

Grant Thornton UK LLP
19 November 2010

A Reports Issued

Reports presented to Audit Sub-Committee



- Reports issued**
- 1 Audit Approach Memorandum
 - 2 Arrangements Letter
 - 3 Interim Audit Report
 - 4 ISA 260 Report
 - 5 Annual Audit Letter

- Reports to be issued**
- 6 Grants Report

B Audit and Other Fees

Audit Area	Budget 2009/10 £	Actual 2009/10 £
Financial statements	66,000	66,000
VFM conclusion / Use of resources	30,000	30,000
Total Code of Practice fee	96,000	96,000
Certification of grant claims and returns	46,136*	TBC**
	142,136	TBC**

* Budget for certification work based on actual bills in 2008/09.

** To be confirmed as work is still ongoing on grant certification.



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