

Annual Audit Letter

Uttlesford 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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Key messages

This report summarises my findings from the 2009/10 audit. My audit includes two elements:

- **the audit of your financial statements (pages 5 to 7); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 8 to 11).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified audit opinion on 30 September 2010, which was the statutory deadline. Before giving my opinion, I reported to those charged with governance (in this case the Performance Select Committee) on the issues arising from the 2009/10 audit. I presented this report on 21 September 2010 and provided an update to the Chair of Full Council on 30 September 2010.

2 My audit found a significant number of errors in the approved accounts, two of which were material. The errors identified were mainly of a technical or presentational nature. None of the errors affected the 2009/10 outturn or the level of revenue reserves. The Council agreed to correct most of these with the exception of eight which officers chose not to amend for. Both the Performance Select Committee and Full Council ratified the decision not to amend for the uncorrected errors. These uncorrected errors were not so significant as to distort the overall financial position of the Council. I was therefore able to conclude that the accounts give a 'true and fair' view of the Council's financial position at 31 March 2010 and its income and expenditure for the year, and issue an unqualified audit opinion.

3 The 2010/11 accounts will be based on International Financial Reporting Standards (IFRS) for the first time. To meet the new requirements, the Council will need to do a lot of work, including restating the 2009/10 accounts. The Council has developed a project plan to meet the new requirements and is progressing with the implementation of this plan. Progress so far is however limited.

Grant claims

4 Overall, the Council's arrangements for the preparation of grant claims requiring audit are adequate. However my audit of the Council's Housing and Council Tax Benefits claim, which is the largest claim I audit and provides the Council with income of about £17 million, has identified more errors than in 2008/09. As a result I have had to undertake additional work, the results of which indicate a potential loss of subsidy. Audit work for the certification of claims and returns is charged on an hourly basis. Therefore any additional work represents a cost for the Council.

Value for money

5 I assess and conclude on whether the Council's arrangements to secure economy, efficiency and effectiveness in its use of the resources at its disposal to provide local services. This is known as the value for money (VFM) conclusion.

6 I have concluded that, during 2009/10, the Council did not meet the minimum standards for one of the nine criteria I assessed. The criteria that was not met was strategic asset management. As a result, I issued a qualified value for money conclusion on 30 September 2010. This is an improvement from 2008/09 when the value for money conclusion was qualified in relation to four criteria.

7 I am aware, as part of my ongoing work with the Council, that asset management has improved during 2010/11, although more remains to be done. Improving arrangements in this important area must continue to be a priority for the Council.

Current and future challenges

Financial standing

8 The last two years have seen the country endure a significant economic recession on the back of a global economic crisis triggered by the collapse of a number of high-profile international banks.

9 The outcome locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these continue to provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.

10 The Council is responding to this challenge. The implications of the recession are understood and the challenges faced are being recognised by the Council as a whole. The latest financial strategy considers the impact of the economic downturn and addresses the funding shortfalls, the need for efficiencies and an increased demand for services identified.

11 The impact of the recession and the Comprehensive Spending Review (CSR) will continue to present a challenge to the Council in the coming financial year. The Council's mid-year review of their Medium Term Financial Strategy (MTFS) anticipated the impact of the comprehensive spending review to be a cut in general government grants of 25 per cent over four years. The MTFS has been updated accordingly to reflect the resulting savings required and the developing plans to address these savings. The levels of savings required are unprecedented and delivering them presents a significant challenge for the Council. I will continue to monitor the Council's response and actions in this key area.

12 The Council invested in Icelandic banks during 2007, and now expects, based on advice from the LGA and CIPFA, to receive compensation for 95 per cent of the £2.2 million invested. This is an improvement on the previous estimate of 83 per cent reported in 2008/09, but is still not guaranteed. The Council has set aside an additional £1.162 million in an earmarked contingency reserve to absorb the reduction in the value of the deposits placed in Landsbanki. Overall the Council's treasury management strategy is sound and levels of reserves are sufficient to cover the anticipated loss on the Icelandic investments.

Audit fees

13 I have been able to deliver and conclude my audit programme within the fee that I planned.

Financial statements 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 30 September 2010, the statutory target date.

Overall conclusion from the audit

14 I issued an unqualified opinion on the Council's accounts on 30 September 2010, meeting the 30 September deadline set within the Accounts and Audit Regulations 2003. In my opinion, the accounts give a 'true and fair' view of the Council's financial position at 31 March 2010 and its income and expenditure for the year then ended.

15 Before giving my opinion, I reported to those charged with governance, in this case the Performance Select Committee, on the issues arising from the 2009/10 audit. I presented my report on 21 September 2010.

16 The draft accounts were approved on 22 June 2010, before the 30 June deadline specified in the Accounts and Audit Regulations 2003.

17 The working papers supporting the accounts were of a reasonable standard and were made available at the start of the audit. There is however still scope for further improvements next year and these have been discussed with officers. Responses to queries and requests for additional information were helpfully dealt with by finance staff, although key staff absences during the audit resulted in delays in responding to some audit queries.

18 Two material errors were identified and amended in the financial statements. These errors related to the omission of land at the Lord Butler Leisure Centre from the accounts and the incorrect classification of cash as investments. In addition, a large number of amendments were made to ensure disclosures met the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2008. This is a decline in performance from the previous year (we report 15 amendments in our 2009/10 Annual Governance Report compared to nine in 2008/09). However the errors identified were of a technical or presentational nature and did not affect the 2009/10 outturn or the level of revenue reserves available to spend.

19 The cash flow statement produced for audit required significant amendment because of changes to other primary statements and notes and was not supported by adequate working papers. The final version of the cash flow statement still contained an unsupported entry of £235,000. The Council needs to revisit the arrangements for producing this statement for future years.

Weaknesses in internal control

20 I did not identify any significant weaknesses in your internal control arrangements. The Council's annual governance statement was in line with requirements. The Council's internal audit team comply with the CIPFA code. The financial systems underpinning the accounts continue to operate with sound controls in place.

Certification of claims and returns

21 As the Council's auditor, I am required to certify the Council's claims and returns. My work on the current year claims has found that arrangements for the preparation of most of the Council's claims are adequate and there have been some improvements.

22 However, the arrangements for the largest claim I audit, the Housing and Council Tax Benefits scheme, are worse than in 2008/09. My audit work has identified an increased number of errors in assessment which have resulted in the need for additional audit testing. The fee for the audit of grant claims is charged on an hourly basis. Therefore any additional work results in an increased cost to the Council. The audit may result in reduction of subsidy due to the Council as a result of the errors identified, however at this stage, the amounts involved are not expected to be significant.

Recommendation

R1 Review and strengthen quality check arrangements to ensure assessment errors are identified and corrected prior to the audit of the Housing and Council Tax Benefits claim.

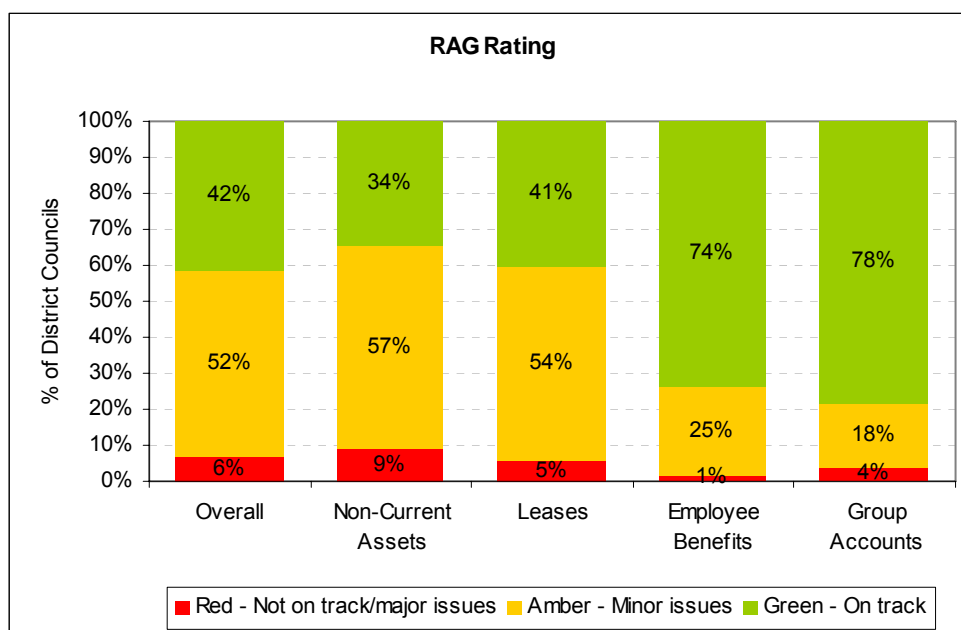
International Financial Reporting Standards

23 Local authorities have to produce their accounts under International Financial Reporting Standards (IFRS) for 2010/11. The Council has a project plan in place to meet these new requirements, which includes key milestones, however slippage against this plan has occurred. CIPFA guidance on IFRS implementation has been delayed and is not expected now until the end of December 2010.

24 The Audit Commission undertook a survey of auditors of all local authorities in summer 2010 to assess local authority readiness for IFRS. As part of this survey, I rated Uttlesford District Council as being at high risk of not delivering good quality IFRS-compliant accounts on the areas assessed. Particular areas of risk I identified were the restatement of balances at 1 April 2009 and 31 March 2010, and the identification of leases and arrangements that contain a lease. My assessment of Uttlesford's overall readiness compared with other district councils is highlighted in figure 1.

Figure 1: **Overall readiness for IFRS**

Compared with other district councils, Uttlesford is at higher risk



Source: Auditor survey summer 2010

25 The Council plans to restate the opening balance sheet at 1 April 2009 and the 2009/10 financial statements and produce a skeleton set of 2010/11 IFRS-compliant accounts by mid-January 2011. This timescale will allow time for external audit review of the work undertaken before the financial year-end. Failure to meet the planned timescale increases the risk of the 2010/11 draft accounts being produced after the statutory deadline of 30 June. There is also a risk that I may not agree with the Council's treatment of key items within the draft accounts. Both risks would increase the likelihood of either a late or qualified audit opinion for 2010/11.

Recommendation

R2 Deliver the agreed plan for producing IFRS-compliant accounts within the timescales the Council has set. Failure to do this could result in a qualified or late opinion on the 2010/11 financial statements.

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 as a result have qualified my value for money conclusion.

2009/10 use of resources assessments

26 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.

27 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.

28 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

29 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.

30 My findings are summarised in following table.

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

31 As a result of my assessment as summarised above, I issued a qualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources in all areas except for strategic asset management. Although my conclusion was qualified, this is an improvement from 2008/09 when four criteria were not met. In 2008/09 the Council's arrangements were unsatisfactory for understanding costs and achieving efficiencies, commissioning and procurement, risk management and internal control and strategic asset management.

32 The main reasons for my qualification are outlined below.

Strategic asset management

33 The Council did not have a strategic asset management plan in place for the whole of the financial year and there was no current corporate asset strategy linked to priorities. In addition, the asset register was maintained on a spreadsheet that was only updated at the year-end and did not contain sufficient detail. Review of the asset register as part of the audit of the 2009/10 financial statements identified errors and omissions. A comprehensive and complete asset listing is a basic building block for the strategic plan and a key tool for asset management purposes.

34 My assessment of the Council's arrangements to secure value for money only considers arrangements in place during 2009/10 (that is up to the 31 March 2010). I am aware as part of my ongoing work with the Council that arrangements have improved since the date of my review. I cannot reflect these in my assessment as outlined above, but have noted below some of the key areas of further progress.

35 The Council is continuing to develop its strategic approach to asset management. In 2010, Braintree District Council's asset management team was appointed as the Council's asset management consultants. As part of their engagement they will compile a reliable asset register and produce a new asset management plan that provides strategic advice on the possible uses of the Council's assets. This work is underway, with a planned completion date of March 2011.

36 The Council is also taking part in the Improvement East funded Essex Asset Management Project. This seeks to identify opportunities for Essex local authorities to collaborate and share the use of assets. In addition, discussions are being held with other local authorities about opportunities for shared asset use.

Risk-based performance reviews

37 To support my review of the value for money criteria outlined above, I undertook the following study.

Health inequalities follow up (Essex-wide review)

38 The purpose of this follow up review was to assess the arrangements now in place across Essex to reduce health inequalities, establish progress against our original recommendations and identify what outcomes have been achieved.

39 Overall, Essex public sector organisations have made good progress against our recommendations. In particular, progress has been made in consolidating strategic approaches to deal with health inequalities, working together to develop operational arrangements to deliver the strategies and improving member awareness. Some issues require further attention, particularly in delivery, target setting and local performance monitoring.

40 In terms of the Uttlesford Local Strategic Partnership, our review concluded that the LSP has strengthened its arrangements for improving health. However, there is a limited focus on health inequality and no agreed joint strategic approach. Progress against our original recommendations and the outcomes achieved were mixed with limited progress and significant issues still to be addressed in some areas. Some of the key areas to be addressed included:

- ensuring the LSP has specific targets to reduce health inequalities;
- establishing specific joint planning arrangement for health inequalities; and
- developing mechanisms for measuring, reporting and managing progress in reducing health inequalities.

Approach to local value for money work from 2010/11

41 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 for 2010/11.

42 My future 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.

43 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 work and the key messages for the Council in my annual report to those charged with governance and my annual audit letter.

Current and future challenges

Financial pressures

44 There are some significant risks to the Council's future financial resilience which the Council will need to address over the coming months.

45 The economic downturn and banking crisis is having a significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams.

46 The Council along with other local authorities faced significant financial pressures during 2009/10. The Council successfully managed these pressures and the reported year end spend was £1.8 million below budget. Of this, £0.8 million was attributable to net favourable variances in service and corporate budgets. The remaining £1 million was the net result of unbudgeted income and one off awards. Going forwards, the financial pressures the Council faces will continue to increase and it will need to continue to tightly manage its budget.

47 The government has made clear its priority to tackle the UK's deficit. On 24 May 2010, the Chancellor of the Exchequer and Chief Secretary to the Treasury announced the first step in tackling the deficit, setting out how the government intends to save over £6 billion from spending in 2010/11. The government subsequently announced details of how the next comprehensive spending review would be conducted. The outcome of the comprehensive spending review was reported on 20 October 2010, and set spending limits for every government department for the period 2011/12 to 2014/15. It also included annual funding reductions of 7.1 per cent for four years for local authorities (totalling approximately 28 per cent over the four years). The Council will need to build the outcome of the spending review into its financial plans and revisit the assumptions contained in its MTFs, as outlined overleaf.

48 The Council's latest MTFs, as reported to the Finance and Administration Committee on 16 September 2010, anticipated the impact of the comprehensive spending review to be a cut in general government grants of 25 per cent over four years. As a result, the Council has already recognised in its medium term financial planning the need to address an in-year deficit of £0.3 million in 2010/11, rising to £2.5 million by 2014/15. To achieve this, the Council will need to reduce running costs by about £2 million per year by 2014/15. Over the next four years the Council therefore aims to save £5.4 million. These levels of savings are unprecedented and delivering them presents a significant challenge for the Council.

49 The Council anticipated this challenge in their original MTFs published in February 2010 and has shown good progress in developing plans under the heading of 'Strategic Solutions Workstreams' to deliver the necessary savings. Strategic partnering is one of the workstreams being developed. The implications of the savings targets are understood and the challenges faced are being recognised by the Council as a whole. A more accurate assessment of the impact of the Comprehensive Spending Review will not be possible until the provisional financial settlement is announced in December 2010. However, to prepare for the possibility that the provisional financial settlement is less than expected, the Council has already carried out additional scenario planning.

50 The Council's general fund balance at 31 March 2010 was £1.096 million. The Assistant Chief Executive - Finance considered the minimum safe contingency balance held should be £1.085 million for 2009/10. The current level of balances is therefore above the recommended minimum level for 2009/10, but only by £0.011 million. For future years, the minimum level of reserves will need to increase to match the increased anticipated spend and shortfalls in income. The Assistant Chief Executive - Finance has recognised this in the MTFs which states that the minimum level of reserves for 2010/11 should be £1.181 million, rising to £1.433 million by 2014/15.

51 The Council invested £2.2 million in Icelandic banks in October 2007, which suffered a default following the collapse of the Icelandic banking system. The Council is awaiting confirmation that an agreement has been reached to compensate creditors of Landsbanki equal to (or exceeding) 95p in the pound (which is an improvement on the previous estimate of 83p reported in 2008/09). This assumes the Council, including other UK local authorities, remain as preferential creditors, something which is being challenged by non-preferential creditors through the Icelandic courts. The Council has set aside an additional £1.162 million in an earmarked contingency reserve to absorb the reduction in the value of the deposits placed in Landsbanki (referred to as an impairment charge). The Council therefore has sufficient reserves to cover the remaining loss.

52 Should the Icelandic courts decide the Council is no longer a preferential creditor, the estimated recovery is likely to decrease from 95 per cent to around 38 per cent. This will have a significant impact on the Council's finances, resulting in a larger impairment charge. This scenario has not been reflected within the Council's medium term financial planning as current advice from CIPFA is to assume the Council's status as preferential creditors will prevail.

53 Though the economic downturn is presenting specific issues and risks for the Council, appropriate steps are being taken to respond to these risks. Achieving the required levels of savings will however be a significant challenge to the Council. This is an area I will continue to consider closely when assessing the Council's arrangements to secure economy, efficiency and effectiveness during my 2010/11 audit.

Recommendation

R3 Continue to monitor the financial position closely and make the necessary decisions about services to continue to balance the budget in 2011/12 and future years.

Future developments

54 Councils across the country are exploring new ways of providing services in light of public spending reductions over the next four years and the Comprehensive Spending Review announced on 20 October 2010.

55 The Council is working with Harlow District Council to explore a joint shared service partnership. Both have decided, in principle, to enter into a joint partnership for the administration of council tax, business rates and benefits.

56 The formation of a shared service partnership has the potential to make large savings. A feasibility study was commissioned in the summer to identify costs and benefits of the Councils working in such a partnership. This identified the potential for the Councils to save around £635,000 a year; £455,000 of direct costs savings and £180,000 of support service cost savings. The study also noted that to secure the potential savings, implementation costs amounting to around £400,000 will need to be incurred over the next 24 months. These are indicative costs and further work is necessary to confirm the achievability of such savings and the cost of implementation.

57 The creation of a revenues and benefits services partnership will be taken forward by a Joint Committee of Harlow and Uttlesford Councillors. It is anticipated there will be a two year transition period and full savings and changes will be in place by 1 April 2013.

Closing remarks

58 I have discussed and agreed this letter with the Chief Executive and the Assistant Chief Executive - Finance. I will present this letter at the Performance Select Committee on 1 February 2011 and will provide copies to all Council Members by the end of November 2010.

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

Report	Date issued
Audit and inspection fee letter	April 2009
Audit opinion plan	June 2010
Annual governance report	September 2010
Opinion on the financial statements	September 2010
Value for money conclusion	September 2010
Health inequalities follow up	September 2010
Annual audit letter	November 2010

60 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.

Debbie Hanson
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£66,035	£66,035	£0
Value for money	£55,955	£55,955	£0
Whole of government accounts	£2,260	£2,260	£0
Total audit fees	£124,250	£124,250	£0
Non-audit work	£0	£0	£0
Total	£124,250	£124,250	£0

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.

Appendix 3 Action Plan

Recommendations

Recommendation 1

Review and strengthen quality check arrangements to ensure assessment errors are identified and corrected prior to the audit of the Housing and Council Tax Benefits claim.

Responsibility	Head of Customer Support & Revenue Services
Priority	High
Date	29 November 2010
Comments	Quality control and training has been strengthened in 2010 and reported accuracy has improved in 2010/11.

Recommendations

Recommendation 2

Deliver the agreed plan for producing IFRS-compliant accounts within the timescales the Council has set. Failure to do this could result in a qualified or late opinion on the 2010/11 financial statements.

Responsibility	Assistant Chief Executive – Finance
Priority	High
Date	29 November 2010
Comments	Agreed in principle. CIPFA guidance on IFRS implementation is delayed to end of December 2010, making meaningful progress difficult in the meantime. Appropriate capacity and capability has been secured with a view to achieving IFRS conversion by February 2011. There is a dependency on timely agreement of key principles with the external auditors.

Recommendations

Recommendation 3

Continue to monitor the financial position closely and make the necessary decisions about services to continue to balance the budget in 2011/12 and future years.

Responsibility	Assistant Chief Executive – Finance
Priority	High
Date	29 November 2010
Comments	Budget monitoring and medium term financial planning are embedded and the Council has a high state of preparedness to cope with the challenges ahead.

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Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946