

# Annual Audit Letter

Uttlesford District Council

Audit 2010/11



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# Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

Key audit risk	Our findings
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

## Audit opinion and financial statements

2010/11 was the first year the Council was required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS). The changes arising from the introduction of IFRS impacted on both the Council's preparation of the accounts and my audit of those financial statements. The approach adopted by the Council ensured it successfully met the challenge. I did not identify any errors in the accounts arising from the transition to IFRS.

The financial statements presented to me were complete. They did contain a small number of errors, but none of these were material. All the errors I identified were corrected and there was no impact on the usable reserves of the Council because of these changes. I was able to issue my unqualified opinion and certificate on 29 September 2011 before the statutory deadline of the 30 September.

## Value for money

My value for money assessment found the Council had satisfactory arrangements to:

- secure financial resilience; and
- challenge how it secures economy, efficiency and effectiveness.

I therefore issued an unqualified value for money conclusion alongside my opinion on the financial statements.

## Current and future challenges

The Council has responded well to recent financial challenges and has a robust budget setting and financial management system. The existing arrangements provide a good foundation to support the Council in facing the significant and varied future challenges.

The financial position for 2011/12 and future years remains challenging and needs to be kept under review. The planned legislative changes to housing financing, planning and housing benefits will have significant service and budgetary implications for the Council that will need to be considered as part of the ongoing development of the MTFS.

# Financial statements and annual governance statement

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**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

I issued an unqualified opinion and certificate on 29 September 2011.

The move to IFRS gave all Local Government organisations including district councils, the difficult task of reviewing their past accounting policies and accounts and restating them in the format required by IFRS. It also required the current year accounts to be prepared in the new format. Overall, the Council prepared well for this transition. No issues arose from my audit because of this change in accounting standards.

The draft financial statements presented for audit were complete and of a good standard. They did contain some errors, but none of these were material. There was no impact upon the level of usable reserves available to the Council as a result of these changes.

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

## **Other matters**

During 2010/11, the Council paid termination benefits to members of staff that were made redundant. My audit work concluded that the termination payments included in the accounts were fairly stated. However, my review of one of these payments identified weaknesses in the documentation of the key decisions supporting the payment. I have therefore recommended that the Council improves the transparency of its decision making and ensures that adequate documentation is retained to support any decisions regarding termination benefits and associated payments.

## Grant certification

As the Council's auditor, I am required to certify the Council's claims and returns on the following basis:

- claims and returns below £125,000 are not subject to certification;
- claims and returns between £125,000 and £500,000 are subjected to a reduced, light-touch certification; and
- claims and returns over £500,000 are subjected to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment leads to a reduced certification approach for these claims and returns.

I am required to certify a total of five returns, one of which is the Whole of Government Accounts return, and one claim (the housing benefit claim) in relation to 2010/11.

All returns have been certified and submitted by the required deadline. No significant issue have been identified as part of this audit work, although some minor amendments to the returns have been necessary. My audit of the housing benefits claim is nearing completion and will be finalised by the deadline of the 30 November. I will report on this separately to the Council once the work is complete, but the work that has been done to date has not identified any significant issues.

# Value for money

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**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.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council is in a stable financial position and has reasonable level of reserves at the end of 2010/11. The Council produces budget reports which include forecasts and detail any remedial action agreed by senior management. The Council has demonstrated that it will challenge high spend areas.</p> <p>The Council, along with other public sector bodies across the country, has been subject to funding cuts. The effects of this have been considered in the 2010/11 and 2011/12 Medium Term Financial Strategy (MTFS). My review of these documents found that they reflect the Council's strategic objectives and include details of secured savings and efficiencies, as well as indications of where further savings can be made. The strategies also consider the results of consultations with the public. The 2011/12 MTFS is linked to other resource strategies and includes financial modelling.</p> <p>The Council's treasury management arrangements ensure that the organisation has sufficient cash to meet its needs.</p>

## Criterion

## Key messages

Budget holders are provided with training to ensure that financial literacy and skills are developed throughout the organisation.

There remain however some areas of potential improvement. My review of the Council's expenditure found that the level of expenditure (per head) on central services is high. The average is £116 per head whereas the figure for this Council is £147. This expenditure covers services provided to the public by central departments, for example, the cost of conducting elections. The reason for this is unclear, but does highlight a potential area for savings. The Council has also used all its usable capital receipts at the end of 2010/11 and will need to fund future capital expenditure through borrowing. Associated financing and repayment costs will therefore need to be considered as part of future MTFS updates.

### **2. Securing economy efficiency and effectiveness**

#### **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council is seeking ways to make savings by using partnership working, for example the revenues and benefits partnership with Harlow District Council. One of the objectives of this partnership, beyond savings, is to maintain, as a minimum the current levels of service performance.

My review included a consideration of the current activities of the Council. The Council's reviews of day centre provision and the Supaloo contract indicates that it is prioritising resources, using options appraisal and looking at alternative means of providing services to the public.

The Council is developing a value for money methodology and a pilot study has been undertaken. Some of the services within the organisation are using comparative data and taking part in benchmarking exercise. However, this is not yet Council wide practice.

The Council has reviewed its procurement strategy. This has resulted in a commitment to leave the Procurement Hub and internalise the function by employing its own procurement manager.

Progress is being made towards developing a robust asset management plan. In September 2010, an arrangement with Braintree District Council's Asset Management Team started, with Braintree providing asset management advice and consultancy to support the Council. However, further work is required to collate the information held so the plan can make a more useful contribution to the development of an asset management strategy.



# Current and future challenges

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## Economic downturn and pressure on the public sector

The economic downturn is placing increasing pressure on the public sector as a whole. This is reflected in the:

- challenging Comprehensive Spending Review settlement;
- increasing demand for key services; and
- reduced ability of members of the public to pay for services.

In addition, there are challenges arising from Housing Revenue Account self-financing. Taken together, these challenges will put increasing pressure on the Council's finances.

The Council is well-placed to meet these challenges. It has a well founded and robust budget setting and financial management system based on medium term planning. It has also modelled the impact of the challenges it faces and has in place a soundly based Medium Term Financial Strategy.

## Joint arrangements/shared services

Central Government has identified joint arrangements and shared services as a key element in councils reducing their overall costs. The Council is seeking ways to make savings by using partnership working, for example the future revenues and benefits partnership with Harlow District Council is aiming to both improve services and save costs.

## Icelandic banks

In 2008/09, along with many other local authorities, the Council was affected by the collapse of Icelandic banking institutions with a total of £2.2 million in short term investments with one of the affected banks, Landsbanki. At the time of our audit of the 2010/11 accounts, the eventual amount that may be recovered from these investments remained unclear although expectations were that most these investments will be recovered.

The Council followed the detailed guidance issued by the CIPFA Local Authority Accounting Panel in relation to the likely recovery of these investments and their valuation in the accounts. At 31 March 2011 the recoverable amount was expected to be approximately £1.74 million. On 28 October 2011, the Icelandic Supreme Court upheld the earlier decision, confirming the priority status of local authorities. The Council will therefore need to update its financial plans to reflect the impact of this judgement.

## Housing Revenue Account self financing

Under the existing housing subsidy system, councils with housing stock are required to prepare a notional Housing Revenue Account using a set of predetermined factors. In simple terms, if this notional account is in credit then the surplus is payable to central government and if in a deficit situation an equivalent payment is made to the council to support the housing landlord function.

2011/12 is to be the last year of the existing system. Under a new financing system, councils will be responsible for financing of the Housing Revenue Account, and the existing system of grants and payments will end. To fund this, Central Government will be making payments to certain local authorities and in the case of local authorities that currently contribute to the scheme, transferring a debt liability. Under the current arrangements, the Council makes a payment to central government. Under the new arrangements the Council will be taking on a debt liability. The debt liability transfer is to take place on 28 March 2012. The value of this transfer will be £88.7 million, subject to consultation.

## Welfare reform

The Welfare Reform Bill, introduced in Parliament in February 2011, will bring significant changes to the welfare system. It will introduce a 'universal credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. This includes housing benefit and council tax benefit, which are administered by councils. The Bill makes other significant changes to the benefits system. The changes that specifically affect councils include:

- restriction of housing benefit entitlement for social housing tenants whose accommodation is larger than they need; and
- up-rating of local housing allowance rates by the consumer price index.

The Government has yet to confirm the detailed timescale over which the full move from the existing housing benefit and council tax benefit systems to the universal credit will take place. However, it is clear that this will have significant operational and resource implications for the Council. This is identified as a key issue and is being actively monitored.

More recently, the coalition government released a consultation paper on local support for council tax. This stated that council tax support would not form part of universal credit and would remain a local authority responsibility. The paper also set out the need for a 10 per cent cut in the existing level of support.

## Localism Act

This Act, will have far reaching implications for local authorities including the following.

- Granting of a 'general power of competence', to provide councils with the legal power to do what is not specifically prohibited.
- New rights and powers for communities. These include:
  - 'community right of challenge' – would allow voluntary and community groups to express an interest in taking over and running local authority services; and
  - 'community right to buy' – local authorities to hold a list of community value assets and if wish to dispose of community groups must be allowed time to put together bids and finance.
- Planning system reforms including changes to the community infrastructure levy with a proportion going to neighbourhoods affected by the developments.

The full implementation of the provisions of the Act will have significant service provisions and hence budgetary implications for the Council. These will need to be considered as part of the ongoing development of the MTFS.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Assistant Chief Executive - Finance. I will make copies available to all Members prior to 30 November 2011.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit and inspection fee letter	March 2010
Audit opinion plan	January 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements and value for money conclusion	September 2011
Annual audit letter	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Debbie Hanson

District Auditor

18 November 2011

# Appendix 1 – Fees

	Proposed	Actual	Variance
2010/11 Audit Fee	122,200	122,200	Nil
2010/11 Grants fee	61,915	TBC	TBC
<b>Total</b>	<b>184,115</b>	<b>TBC</b>	<b>TBC</b>
2009/10 Audit Fee	124,250	124,250	Nil
2009/10 Grants fee	64,365	64,365	Nil
<b>Total</b>	<b>188,816</b>	<b>188,716</b>	<b>Nil</b>
2008/09 Audit Fee	128,345	128,345	Nil
2008/09 Grants fee	66,000	66,000	Nil
<b>Total</b>	<b>194,345</b>	<b>194,345</b>	<b>Nil</b>

In 2010/11, the Council also received two rebates totalling £7,919 directly from the Audit Commission. This total rebate comprised £6,332 for the extra audit costs from the transition to IFRS and £1,587 for a reduction in the work on the value for money conclusion. The net fee therefore paid by the Council for the 2010/11 audit was £114,281. The total fee including grants was £176,196.

# Appendix 2 – Glossary

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## **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 financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **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 resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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