

Annual Audit Letter

Dacorum Borough Council

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

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

- The Council's 2010/11 financial statements were the first prepared under International Financial Reporting Standards (IFRS). My audit found the Council had adopted effective processes for the production of its financial statements. This was reflected in the relatively small number of matters I brought to the attention of the Audit Committee in my Annual Governance Report. In the context of the introduction of IFRS, this was a good performance by the Council.
- I issued my unqualified opinion on these financial statements on 30 September, the deadline set by the Department of Communities and Local Government (DCLG).

Value for money

- My review did not identify any matter that would lead me to believe that the Council did not have in place adequate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

Grant Certification

- I expect to have completed my work on the certification of the Council's 2010/11 grant claims and returns by the end of November 2011 and I will report formally on the outcome of this work in a separate report.

Current and future challenges

Economic downturn and pressure on the public sector

The continued 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.

So far the Council has responded well to these challenges, further commentary is provided in the assessment of financial resilience in the value for money section below.

Joint arrangements and shared services

Central Government has identified joint arrangement and shared services as a key element in councils reducing their overall costs. The Council has a track record of partnership working with a range of public, private and voluntary sector bodies.

The Council recently entered into a shared services arrangement with a number of other local government bodies in the area to provide Payroll services for 2011/12 and beyond. The purpose of this arrangement is to improve the efficiency of the service and to make savings. The Council will need to ensure that they continue to gain the required assurances in a timely manner from this service.

The Council is presently exploring alternative delivery options for a range of services with potential partners.

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 for such items as maintenance costs and rental income to reflect the mix and age of the housing stock. 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. The Council's notional Housing Revenue Account is in credit and it was therefore required to make a contribution of £17.9 million to Central Government in respect of their housing stock in 2010/11.

The current year, 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 the Council and other local authorities that currently contribute to the scheme, transferring a debt liability. The debt liability transfer for Dacorum has been set by the government at £355 million. The transfer will take place on 28 March 2012.

A key issue is how the debt transfer will be financed. Recent Central Government announcements have indicated that authorities that will be having debt transferred will now be able to borrow at preferential rates from the Public Works Loans Board (PWLB) rather than via the Money Market by way of loans or bonds. It is expected that the availability of these lower rates will lead to the majority of councils funding their debt transfer via the PWLB. While this will remove the current housing subsidy regime in which the authority makes an annual payment to Government, the Council will need to fund the interest payable on the loan.

Localism Bill

This Bill is expected to receive Royal Assent in early 2012 to allow the HRA self financing proposals discussed earlier to proceed. However, the Bill has far reaching implications for local authorities including:

- 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 wishing to dispose of them, 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 Bill will have significant service provisions and hence budgetary implications for the Council.

Welfare reform

The Welfare Reform Bill was introduced in Parliament in February 2011. The Bill means significant changes to the welfare system. It provides for the introduction of 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 follows the November 2010 White Paper, 'Universal Credit: welfare that works', which set out the Coalition Government's proposals for reforming welfare to improve work incentives, simplify the benefits system and tackle administrative complexity.

Besides introducing Universal Credit and related measures, 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.

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.

Overall conclusion from the audit

I issued my unqualified opinion on the financial statements on 30 September.

Before giving my opinion, I reported to those charged with governance (in this case the Audit Committee) on the issues arising from my audit of the Council's financial statements. In my Annual Governance Report I drew members' attention to a small number of adjustments to the draft financial statements provided for audit. These adjustments:

- reflected further work undertaken by officers to validate the output from the Council's new asset management system;
- corrected a misclassification of expenditure within the Housing Revenue Account; and
- ensured the disclosure notes within the financial statements fully met the requirements of IFRS.

My report also drew attention to a small number of errors which were not material to the Council's financial statements. The Council chose not to correct these in its draft financial statements for these,

My audit found that the Council prepared well for this year's audit. This is reflected in the low number of issues which I brought to the attention of the Audit Committee in my Annual Governance Report. This is good performance in the context of the introduction of IFRS.

I did not identify any significant accounting practice or financial reporting issues during my audit

I certified the Council's Whole of Government Accounts return on the 30 September.

Significant weaknesses in internal control

I have not identified any significant weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

Value for money

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

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.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</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 clearly understands the significant and rapidly changing financial management challenges facing the organisation and is taking appropriate action to secure a stable financial position. The Council prepared well for the local government finance settlement, modelling the impact on its budget of expected cuts in central government as a result of the local government funding settlement. Key to this assessment are:</p> <ul style="list-style-type: none">■ The Council's medium term financial strategy (MTFS). The MTFS has been updated at key points throughout 2010 and 2011, and reflects the Council's priorities, the outcome of the Government's Comprehensive Spending Review (CSR) 2010 and the Local Government Finance settlement issued in January 2011. The MTFS reflects the need for the Council to make a savings of £3.8 million on the General Fund over the period 2011/12 – 2015/16;■ The Corporate Director (Finance and Governance) is a key member of the leadership team and is actively involved in business decisions;

Criterion	Key messages
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<ul style="list-style-type: none"> ■ The Council has a robust and reliable financial management system that allows all levels of management and budget holders access to the financial information; ■ The Council has established effective budget monitoring arrangement, reporting outturn against budget, and a forecast of outturn for the financial year, to Cabinet on a quarterly basis; ■ Financial proposals are subject to robust scrutiny, through Cabinet, the Capital Strategy Steering Group (where relevant), and Overview and Scrutiny Committees and ■ The Council has a mature Risk Management Policy and Strategy which provides for the effective management of its corporate and operational level risks. <hr/> <p>The Council has in place strong leadership and the capacity to deliver the scale of the spending reductions required of it. The Council uses suitable information on which to base decisions, and there is strong challenge on service delivery – for example, on a quarterly basis, Cabinet consider financial and operational performance against a range of key performance indicators linked to the Council's corporate priorities.</p> <p>Resources have been effectively prioritised through:</p> <ul style="list-style-type: none"> ■ Formation of a Medium Term Financial Strategy that has been developed that reflects current economic conditions and future challenges; and ■ The Council reviewed its priorities as part of the 2011/12 budget setting process. This included engagement with local residents to gain an understanding about the areas they deemed important and which should be kept and service areas that could be cut. <p>The Council has targeted cost reductions and efficiency through:</p> <ul style="list-style-type: none"> ■ A realignment of responsibilities at Director and Assistant Director level, streamlining management processes and reducing costs; and ■ The Council recently outsourced the provision of Payroll services, and is currently considering options for the delivery of other services.

Closing remarks

I have agreed this letter with the Chief Executive and the Corporate Director (Finance and Governance). I will present this letter at the Audit Committee on 8 February 2012 and will provide copies to all members.

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 Fee Letter	April 2010
Audit plan	April 2011
Annual Governance Report	September 2011
Auditor's report giving the 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's staff for their support and co-operation during the audit.

Mark Hodgson
District Auditor

November 2011

Appendix 1 – Fees

	Actual (£)	Proposed (£)	Variance (£)
Scale fee	170,000	170,000	-
Non-audit work	-	-	-
Total	170,000	170,000	-

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 certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

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.

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.

General Fund

A separate account within the financial statements which includes the expenditure and income arising from the provision services other than those relating to the Council acting as a landlord.

Housing Revenue Account

A separate, statutory account within the financial statements which includes expenditure and income arising from the provision of housing accommodation by the Council acting as a landlord.

International Financial Reporting Standards

International Financial Reporting Standards cover particular aspects of accounting practice, and set out the accounting treatment for the income and expenditure and assets and liabilities held by the Council. Compliance with these statements by the Council in preparing its financial statements is mandatory.

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.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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