

# Annual Audit Letter

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High Peak Borough 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 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.**

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

## **Audit opinion and financial statements**

**1** You can take assurance from the fact that I issued an audit report including an unqualified opinion on the financial statements on 27 September 2010.

**2** From next year (2010/11) the Council will prepare its financial statements for the first time under International Financial Reporting Standards (IFRS). Implementation of IFRS in Local Government will be a major challenge for authorities and will require substantial preparatory work ahead of next year. Based on my assessment of your progress to date and the Authority's previous track record I would not challenge your officers' views that overall you are still on track to meet the required deadlines. However, there is still much to do and it is important that the Council continues to monitor progress over the next few months.

## **Value for money**

**3** I have also given an unqualified conclusion as you have adequate processes in place to manage and use your resources to deliver value for money.

## Current and future challenges

4 Across the country, councils face severe and long-term social and financial challenges over the next few years. District councils have already had to deal with reduced income from fees and charges and councils have in-year cuts in government grant from 2010/11 as well as the prospect of future cuts following the 2010 comprehensive spending review.

5 While the Council's forecasts anticipated many aspects of the national picture, some uncertainties remain about future funding levels. The Council faces the challenge of delivering savings now while ensuring that short-term decisions do not undermine long-term opportunities and achievement of strategic objectives.

# 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 27 September 2010, well within the statutory target date.**

## Overall conclusion from the audit

**6** I issued an audit report including an unqualified opinion on the financial statements on 27 September 2010.

**7** I reported the detailed findings from my audit of the Council's 2009/10 accounts in my Annual Governance report to the Audit and Regulatory Committee. Good quality working papers supported the draft financial statements and officers responded promptly to any queries I raised during the course of the audit. The accounts contained no material errors and only a few non-material, non-trivial errors, which were amended.

**8** I did not identify any significant weakness in your internal control arrangements. I am pleased to note that the issue that we raised regarding the importance of monthly bank reconciliations has now been resolved.

## Readiness for IFRS

**9** From next year (2010/11) the Council will prepare its financial statements for the first time under International Financial Reporting Standards (IFRS). Implementation of IFRS in Local Government will be a major challenge for authorities and will require substantial preparatory work ahead of next year.

**10** During the year, I reviewed the Council's preparations. The Council has a project plan timetable in place for producing IFRS-compliant accounts for 2010/11 by 30 June 2011. It made a later start than its Strategic Alliance partner, but drew on the expertise gained through the joint finance team's early work at Staffordshire Moorlands DC in order to accelerate its progress.

**11** The Audit and Regulatory Committee has been kept informed of the key issues which will have an effect on the Council's accounts and the resource implications. Members have been informed that sufficient capacity exists within the joint finance team to address all of the potential issues, but that some external expertise may be required for the more complex areas.

**12** Whilst I would not challenge your officers views that the Authority is still on track to meet the required deadlines, there is still much to do. The key challenges currently facing the Authority are:

- restating 2009/10 balances on an IFRS basis by the end of December 2010; and
- completing skeleton accounts and accounting policies for member approval before the end of the financial year.

**13** I will continue to monitor progress at the Authority and undertake a review of the restated balances once complete. At the same time, it is important that the Authority continues to monitor progress over the next few months.

## Recommendation

**R1** Monitor implementation of the IFRS work plan to ensure that the IFRS transition is smooth and timely. Determine IFRS accounting policies and ensure that these are adopted ahead of the 2010/11 financial statements being prepared.

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# 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.**

## **2009/10 use of resources assessments**

**14** 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.

**15** 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.

**16** I report the significant findings from the work I have carried out to support the vfm conclusion.

## **VFM conclusion**

**17** 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.

**18** This is a summary of my findings.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good Governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	Yes

**19** I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

**20** I identified areas where the Council's value for money arrangements had provided more significant and tangible outcomes since last year.

**21** In particular, a number of the projected efficiency savings from the Strategic Alliance with Staffordshire Moorlands District Council had begun to be realised during the year and were built into the medium term financial plan (MTFP). The February 2010 MTFP projected the delivery of 14 per cent efficiency gains over the coming few years. This realisation of efficiency savings has significantly enhanced the Council's financial position in readiness for future uncertainties.

**22** A number of other developments had taken place over the last year, including streamlining the format of the accounts to make them easier to understand and consolidation of data quality arrangements. There were also improvements in the outcomes from the Council's governance arrangements.

**23** This is the first year that I have formally reviewed the Council's arrangements for managing its natural resources. I found that the Council has a good understanding of its use of natural resources and effective arrangements to manage their use. The Council has a strong track record in this area and was awarded Beacon status in 2006 for sustainable energy.

**24** The Council has used EMAS for 10 years to help it assess its activities environmental impact and develop programmes to reduce this impact. Council officers have built up sufficient expertise in this area to enable them to provide objective support to other local Councils which are less well developed.

**25** A co-ordinated approach to natural resource usage across the Strategic Alliance is planned and a new joint EMS officer co-ordination group is being set up to bring together staff from both councils to help identify and deliver green initiatives.

## **Approach to local value for money work from 2010/11**

**26** 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.

**27** My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**28** 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 local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

**29** In order to most efficiently assess joint arrangements across the Strategic Alliance, I will again co-ordinate my work with the external auditor of Staffordshire Moorlands District Council.

# Current and future challenges

## Financial position

**30** Across the country, councils face severe and long-term social and financial challenges over the next few years. Demand for local services is growing and demographic change, particularly an ageing population, places increased pressure on local services.

**31** District councils have already had to deal with reduced income from fees and charges. Reduced economic activity has cut income from planning fees, rents, car park charges and capital receipts. Councils have in-year cuts in government grant from 2010/11 and the prospect of future cuts following the 2010 comprehensive spending review.

**32** The government plans to eliminate the structural deficit by 2015/16. Public spending will have to fall and councils will play a major part in helping to reduce the deficit. The October spending review will set the overall public spending levels for the period 2011/12 to 2014/15. The spending review will clarify where greater cuts are required and the timing of those cuts.

**33** For councils, the challenge will be to manage services as income from central government falls. There will be few opportunities to raise income from fees and charges until the economy strengthens and council tax levels will be frozen in 2011/12.

**34** While the Council's forecasts take account of some aspects of the national picture, some uncertainties remain about future funding levels. The Council faces the challenge of delivering savings now while ensuring that short-term decisions do not undermine long-term opportunities and achievement of strategic objectives.

**35** In March 2010 the Council was forecasting to use an additional £667,000 from general fund reserves and balances in 2010/11 leaving the projected general fund balance at 31 March 2011 at £2.1 million. This original version of the MTFP, projected 3 scenarios based on potential 0 per cent, 2.5 per cent and 5 per cent cuts in the size of the Government Grant Settlement.

**36** In August 2010 the Council Executive received a further report on the MTFP to update the financial projections based on a 'middle case scenario' of 7.5 per cent cut for the ensuing four years. This projection showed that, without further application of reserves, the Council would have a budget deficit in 2011/12 of £655,000 and a budget deficit in 2012/13 of £255,000. A further report is to be discussed with members at the end of November/ beginning of December using latest available information at that time.

**37** The detailed impact at local council level has yet to be announced but the Council has taken reasonable steps towards identifying the potential effects of higher than anticipated grant reductions on its financial plans.

### Recommendation

**R2** The Council should continue to closely examine and provide for the potential impact of higher than anticipated grant reductions on its financial plans.

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## Closing remarks

**38** I have discussed and agreed this letter with the Chief Executive and the Executive Director and Chief Finance Officer. I will present this letter at the Audit and Regulatory Committee on 2 December 2010 and will provide copies to all members.

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

Report	Date issued
Annual audit fee letter	April 2009
Audit opinion plan	March 2010
Annual Governance Report	September 2010
Auditor's report giving an opinion on the financial statements	September 2010
Value for money conclusion	September 2010

**40** 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.

Sue Sunderland  
District Auditor  
November 2010

## Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	76,752	76,752	Nil
Value for money	22,230	22,230	Nil
<b>Total audit fees</b>	<b>98,982</b>	<b>98,982</b>	<b>Nil</b>

## 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

Monitor implementation of the IFRS work plan to ensure that the IFRS transition is smooth and timely. Determine IFRS accounting policies and ensure that these are adopted ahead of the 2010/11 financial statements being prepared.

<b>Responsibility</b>	Audit & Regulatory Committee
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<b>Priority</b>	High
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<b>Date</b>	March 2011
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#### Comments

#### Recommendation 2

The Council should continue to closely examine and provide for the potential impact of higher than anticipated grant reductions on its financial plans.

<b>Responsibility</b>	Executive Director and Chief Finance Officer
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<b>Priority</b>	High
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<b>Date</b>	Ongoing
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#### Comments

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