

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	10 NOVEMBER 2011
TITLE OF REPORT:	ANNUAL AUDIT LETTER 2010/11
PORTFOLIO AREA:	CORPORATE SERVICES AND EDUCATION

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To note the Audit Commission's Annual Audit Letter for 2010/11 and approve the response to each of the action points raised.

Recommendation

THAT:

The Annual Audit Letter is noted.

Key Points Summary

- An unqualified opinion on the Council's financial statements.
- An unqualified opinion on the Council's arrangements to secure value for money.
- The Council managed the implementation of International Financial Reporting Standards (IFRS) very well.
- An action plan will be developed and shared and agreed with HPS Leadership Team.

Considerations

1. The audit comprises two elements; the audit of financial statements and the auditor's assessment of arrangements to achieve value for money in the use of resources. In both cases the Council received an unqualified opinion.

Responses to the main challenges

2. The major challenges facing the Council result from increasing demand for its services at the same time as a significant decrease in the available funding
3. The Council continues to manage its finances well but is all too aware that the current and future pressures, such as an ageing local population and reductions in

central government funding, will increase the pressure on finances. The Council continues to manage its finances well but is all too aware that the current and future pressures, such as an ageing local population and reductions in central government funding, will increase the pressure on finances.

4. Demand for the services that support older people in Herefordshire is increasing and the Annual Audit Letter notes the progress made on last year's recommendations
5. The Council, along with Worcestershire County Council, has been exploring the options for waste disposal in the context of the Councils' current contract with Mercia Waste. The Council is taking the necessary and appropriate advice and is planning to undertake the required work to ensure the eventual decisions are taken in accordance with the law and provide value for money
6. There has been a change of focus from the regeneration of the Edgar Street Grid site to the wider regeneration of Hereford. Last year the review confirmed that the Council had sound management arrangements for the Edgar Street Grid project. Since then the Council has made good progress in addressing the recommendations made.

Financial Statements and Annual Governance Statement

7. The audit of the Council's financial statements was completed efficiently with the help of a range of working papers produced by Officers.
8. The Council did well to comply with the requirements of International Financial Reporting Standards (IFRS), adopted for the first time in the 2010 CIPFA Code of Accounting Practice (the Code). The Code introduced numerous new requirements, the most significant of which related to accounting for leases, property, plant and equipment, grants and contributions. The project to implement IFRS was very well managed and included regular progress reports to the Audit & Governance Committee.

Value for Money

9. The Council has generally good financial management arrangements. In particular it has well established medium term financial planning and budgeting to support the delivery of corporate and community plans. The economic downturn and the Government's spending review mean that strong financial management and resilience will be more important than ever. The Council has adequate reserves and balances, but these are likely to come under increasing pressure.
10. The 2010-11 outturn expenditure saw an overall balance after allowing for under spending in treasury management and reducing the Authority's contribution into reserves. The main pressure point was again in the area of adult social care services described below
11. The Council set a comprehensive and balanced budget for 2011-12 which resulted from the Medium Term Financial Strategy (MTFS). The MTFS reflects the financial consequences of the economic downturn and funding cuts. The strategy aims to mitigate the impact of grant income reductions on front line services by savings from the shared services strategy and surplus asset disposals.

12. The Council has good budget monitoring and internal financial reporting arrangements. However, the increasing pressure on finances will increase the risk that budgets are not delivered.
13. The Audit Commission indicate that to improve transparency of the MTFs, the Council should clearly label and set out separately the planned appropriations to and from reserves. The appropriations should be set out "below the line" in such a way that they are not incorporated in the following year's base budget. These changes would allow the budgeted and actual use of reserves to be compared more easily
14. The Council has made good progress against the recommendations in last year's letter around Adult Social Care. It is now piloting electronic monitoring and is introducing a fairer pricing tool focussing on learning disabilities and physical disabilities. It has clearer objectives for the service with lead officers and timescales over a two year timescale for all areas including the cost improvement plans. Work on a more comprehensive re-ablement service is due to start shortly although this may depend on funding being received.
15. The Council's governance arrangements are viewed as effective and continue to be strengthened. Improvements are noted in risk management, decision making and scrutiny. Good proactive fraud work, particularly in the benefits service, has identified savings.
16. The governance arrangements for delivering the savings needed to balance the 2011-12 budget are clear. Responsibility for delivering the savings is clearly defined and savings plans are subject to review and challenge. The Council has separate, well thought out and detailed arrangements for monitoring the delivery of the £10.3m of savings. During the course of the audit, arrangements were further strengthened by profiling the timing of the delivery of savings.
17. The Audit Commission's review of progress within the Shared Services programme is included in the letter. The letter confirms the project is a key part of the Council's plan to transform the way its services are delivered.
18. The regeneration audit covered the Edgar Street Grid (ESG) project and the work focussed on managing finances, governing the business and managing resources. The ESG (now Hereford Futures) Board was viewed as being properly constituted and the governance arrangements were noted as being satisfactory. .

Legal Implications

19. The Annual Audit letter is required to be agreed by the Council.

Communication

The contents of the letter will be the subject of a briefing to the Chair and Vice Chair of the Audit and Governance Committee.

Appendices

None