

EAST HERTS COUNCIL

AUDIT COMMITTEE – 26 NOVEMBER 2014

REPORT BY EXECUTIVE MEMBER FOR FINANCE

THE COUNCIL'S RESPONSE TO THE ANNUAL AUDIT LETTER

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report sets out the proposed response from the Council to the issues and recommendations raised in the Annual Audit Letter 2013/14.

<u>RECOMMENDATIONS FOR AUDIT COMMITTEE:</u> That:	
(A)	the Committee agrees the response to the Annual Audit Letter

1.0 Background

- 1.1 All Councils are subject to independent external review by an external auditor with the final conclusions and recommendations being presented to the Council in the Annual Audit Letter (AAL).
- 1.2 The latest AAL, found in **Essential Reference Paper 'B'** to this report, summarises the key recommendations for the Council arising from the 2013/14 audit along with proposed response from the Council to these.
- 1.3 The AAL will be published on the Council's website, as it has been in previous years, in order to comply with the publication requirements contained within the Local Government Accounts and Audit Regulations.

2.0 Report

- 2.1 The AAL summarises the key issues and recommendations arising from the work undertaken by Grant Thornton UK LLP for

the year ended 31 March 2014.

- 2.2 The letter follows on from the Audit Findings report submitted to the Audit Committee on 24 September 2014.
- 2.3 It is worth noting that since the Audit Committee last met, the Council has received an unqualified opinion on its 2013/14 financial statements from the External Auditor.
- 2.4 No issues have been identified in the AAL that were not also raised in the Audit Findings report. The five key recommendations made by the External Auditor are for the Council to:
- take out disclosures and notes to the Accounts that are no longer required under CIPFA's Code of Practice,
 - review the Council's approach to revaluing assets,
 - enhance and further develop the MTFP to ensure that it is robust,
 - deliver a robust savings plan which addresses future budget gaps, and
 - ensure that reserves remain within the range set by Council policy.
- 2.5 The suggested response from the Council to these recommendations is shown in the AAL and a brief commentary on each is given in the following paragraphs.

3.0 'De-clutter' the Statement of Accounts

- 3.1 Grant Thornton will be leading a training session for Audit Committee members (as the first Agenda item at the meeting on 26 November) to discuss this issue. The Director of Finance & Support Services will subsequently bring back proposals on the way forward to the March 2015 Audit Committee. These proposals will take into account any views from Members, any advice gained from other local authorities and from CIPFA, and any business need for continuing to publish particular information in the Statement of Accounts.

4.0 Asset revaluation

- 4.1 The Council currently revalues its 'other land and property' class of assets, for inclusion in the Balance Sheet, over a two year period. The External Auditor's view is that this revaluation policy does not meet CIPFA's Code of Practice which requires that revaluation of a single category of assets is completed 'within a

short period of time'. Grant Thornton interpret this as meaning that the 'other land and property' category of assets should be valued simultaneously within a single year.

- 4.2 As the External Auditor points out within the AAL, East Herts Council's approach is similar to that adopted by many other local authorities and therefore the issue is a national one. The Director of Finance & Support Services will seek CIPFA's views on this as well as have further discussions with the External Auditors.
- 4.3 Meanwhile Strategic Finance and Asset Management are identifying the potential costs of valuing the 'other land and property' class of assets in a single year rather than over a two year period. There is the possibility that these additional costs could be partially offset by the Council agreeing a change in its overall revaluation policy as the Code of Practice requires all the different asset categories to be revalued every five years and the Council currently exceeds this requirement by doing this within a four year period.
- 4.4 A suggested way forward on this issue for use in the 2014/15 Statement of Accounts will be brought to the March 2015 Audit Committee.
- 5.0 Enhance the Medium Term Financial Plan (MTFP)
- 5.1 A robust medium term financial plan is needed to support decision making and to ensure the future sustainability of the Council's finances. A key enhancement being made to the MTFP for this year's budget cycle is the development of a financial income model which will allow Strategic Finance to better forecast key income streams such as Council Tax, NNDR, Section 31 grants and New Homes Bonus and to model best, worst and likely income scenarios. This work is currently being undertaken by Strategic Finance with significant input from the Revenues and Benefits Service.
- 6.0 Identify and deliver future savings
- 6.1 The MTFP position reported to Executive on 2 September 2014 shows that savings will need to be found from 2016/17 onwards to balance the revenue budget (£244k in 2016/17, £787k in 2017/18, and £821k in 2018/19).
- 6.2 Senior Management Group has already started to discuss and

identify possible savings options (for example a special SMG meeting was held on 6 November 2014 to generate preliminary ideas). These ideas and proposals will be developed so that they can be shared with Members early on in the next integrated service and financial planning process (i.e. the process to agree the 2016/17 budget and MTFP). A new process is currently being developed for next year by the Finance Review Project and the changes being proposed include an earlier start to service and budget planning as well as more up-front Member discussion of key budget/MTFP options including budget savings.

7.0 Review the Council's Reserves Policy

7.1 The Director of Finance & Support Services is currently undertaking a review of the Reserves Policy and her proposals will be considered by Council on 4th March 2015 alongside proposals on the 2015/16 budget.

8.0 Implications/Consultations

8.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

Annual Audit Letter (**Essential Reference Paper 'B'**)
Audit Findings Report (Audit Committee 24th September 2014)

Contact Member: Councillor Michael Tindale – Executive Member for Finance
Michael.Tindale@eastherts.gov.uk

Contact Officer: Adele Taylor – Director of Finance & Support Services
Ext. 1406
adele.taylor@eastherts.gov.uk

Report Author: Karen Watling – Interim Head of Strategic Finance
Ext. 2057
Karen.watling@eastherts.gov.uk