

Annual Audit Letter

Test Valley 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 parts:

- **the audit of your financial statements (pages 4 and 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 9).**

I also comment on some of the future challenges for the Council.

Audit opinion and financial statements

1 On 30 September 2010 I issued an audit report including an unqualified opinion on the financial statements. The arrangements to produce your financial statements were good and the statements contained no material errors. The Council is making good progress towards complying with International Financial Reporting Standards in 2010/11.

Value for money

2 On 30 September 2010 I issued an unqualified conclusion stating the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

3 My assessment this year identified many improvements in the Council's arrangements for achieving value for money, as measured against the Audit Commission's criteria. I assessed arrangements for the use of natural resources for the first time and concluded that the Council is making good progress and is performing better than most councils in Hampshire.

Future challenges

4 The economic downturn is having a significant impact on public finances and the bodies that manage them. It is affecting the ability of public sector bodies to fund service delivery and capital programmes, and some sources of income are reducing.

5 With the proposed government cuts in future financial support for local authorities, the pressures will increase and the Council will have some difficult decisions to take in setting its 2011/12 budget.

6 It is therefore important to ensure the Council is making best use of its people and its property assets, and is working closely with its partners and with other councils to deliver efficient and effective services for local people. My comments in this Annual Audit Letter are intended to help the Council meet this challenge.

Key messages

- 7 My audit over the last year shows that key actions for the Council are to:
- ensure it has identified enough savings to secure its financial stability in the medium-term and has robust processes in place to deliver those savings;
 - continue developing its partnership working as a means of providing communities with the services they need, efficiently and effectively; and
 - ensure it completes the transition to compliance with International Financial Reporting Standards in good time for the closedown of its 2010/11 accounts.

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 30 September 2010.

Financial Statements

8 I issued an unqualified opinion on the Council's accounts on 30 September 2010. In my opinion the accounts give a true and fair view of the Council's financial affairs and of its income and expenditure for 2009/10. I reported detailed matters arising from the audit to the Audit Committee and the Cabinet.

9 I consider your accounting practice as part of my audit. I did not identify any significant misstatements in the Council's accounts. The working papers and audit trails provided were of good quality, but I had some problems in gaining ready access to some supporting evidence. The following matters arose at the audit.

- I identified several minor misstatements, but these did not impact on the Council's financial position and officers adjusted most of them.
- Officers decided not to adjust two misstatements as they regarded them as de minimis, and the Audit Committee agreed that officers should make the necessary changes in the 2010/11 accounts.

Annual Governance Statement

10 I reviewed the Council's Annual Governance Statement (AGS) and decided that it reasonably reflected the Council's circumstances. However, there are areas where it could improve its arrangements.

- The annual effectiveness review of Internal Audit required by Regulation 6(3) of the Accounts and Audit Regulations 2006 should be part of the evidence considered when members agree the AGS.
- Internal Audit's Annual Report should cover fully all the areas in the CIPFA guidance. In particular, their opinion should encompass the overall adequacy and effectiveness of the Council's risk management arrangements and internal control environment, and should disclose any reasons for qualification of that opinion. The report should include a statement of whether audit work has identified any other areas of concern the AGS should cover.

- Towards the end of its first year of existence, the Audit Committee should carry out a self-assessment review of its own performance.

Internal control

11 My audit work did not identify any weaknesses in the design or operation of controls that might result in a material error in the Council's financial statements. However I did identify an opportunity to improve controls over the reconciliations of control accounts, by ensuring that an authorising officer signs-off all such reconciliations and keeps evidence of that sign-off.

International Financial Reporting Standards

12 International Financial Reporting Standards will be fully introduced to local government accounting in 2010/11. This will bring many changes including a range of new disclosures and a reclassification of lease arrangements. Over the last year I have monitored the Council's progress in implementing IFRS.

13 I undertook my first assessment of the Council's progress in November 2009. This showed there was much still to do. Since then, officers have undertaken more work, including:

- developing a detailed project plan;
- keeping Councillors informed of requirements and progress against the plan; and
- collating evidence to decide how to account for the Council's leases under the new requirements.

14 There are some significant areas the Council still needs to complete, including:

- reviewing current lease arrangements to ensure correct accounting treatment under IFRS;
- revising and approving the Council's accounting policies; and
- producing a set of 2009/10 comparative figures and 2010/11 draft statements before the 2010/11 accounts closedown begins.

15 Overall, I think the Council is making good progress towards achieving full compliance with the standards. The Audit Committee has a key role over the next six months in overseeing progress and ensuring there is enough capacity to complete the project.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed its performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion for 2009/10.

I gave an unqualified conclusion on 30 September 2010.

Use of resources assessments for 2009/10

16 At the end of May 2010, the Commission wrote to all chief executives to inform them that, following the government's announcement, work on Comprehensive Area Assessment (CAA) would stop with immediate effect. The Commission would no longer issue scores for its associated use of resources assessments.

17 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.

VFM conclusion

18 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 category of audited body.

19 The table below sets out a summary of my findings against the specified criteria for 2009/10.

Criteria	Proper arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes

Criteria	Proper arrangements?
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Workforce	Yes

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

21 I set out a summary of my findings against each theme below.

Managing and planning finances to meet the future challenge

22 The Council has integrated its performance and financial management into one co-ordinated management framework. This brings together the Council's performance management and strategic planning arrangements including the Annual Planning Cycle. Financial implications are mirrored in the Medium Term Financial Strategy and Annual budget. The Council has managed its spending within available resources over the past three years and has robust monthly capital and revenue budget monitoring in place. The Council has a good track record of managing its finances within the available resources. In 2009/10 it spent £0.3 million less than budgeted, and received £0.9 million of unbudgeted government grants, enabling it to add over £1.2 million to its reserves. This was as well as achieving £0.9 million of savings in the year.

23 The Council has had to find savings of £0.7 million to balance the budget for 2010/11. At the end of September 2010 it reported that spending for the first half year was £0.5 million below the level expected at that stage. The Council will add any underspend at the year-end to its reserves to help manage future pressures.

24 The Council is good at communicating its financial performance and planning to local people and stakeholders. It produces a combined summary of accounts and performance overview, clearly linking financial performance to the delivery of the six key corporate and community priorities. It has invested in a new financial management system (eFinancials), which will allow the Council to improve its financial management, make more informed decisions, improve operations and reduce costs.

Governing the business

25 The Council's arrangements for governing the business are consistent with good practice, meet statutory requirements and work effectively. They have been strengthened since I reported to you last year.

26 The Council has refined its approach to seeking efficiencies and better value for money, taking opportunities to gain better prices for its purchases through shared contracts, developing shared services with other councils and reviewing and redesigning services.

27 Procurement arrangements have improved. The Council now has a consistent and comprehensive approach with clear corporate ownership and clarity of roles, and has integrated procurement into service and corporate planning.

28 The Council now has effective performance management. It has strengthened performance reporting through greater use of benchmarking and better alignment, although not yet integration, of financial and performance reports. The Performance Boards set up in January 2010 allow senior management to review service performance alongside costs and make judgements on value for money. These will report to the relevant lead councillors and will enable greater integration of reports. In addition, Performance Improvement Plans are helping to direct action towards areas that are underperforming.

29 Partnership governance is strong and improving. All partnerships have clear terms of reference robust governance processes and effective performance management. A risk register for partnerships is in place, identifying the results of poor performance or non-delivery. The Partnership Board, with representatives of all main partners and stakeholders across the public and third sectors, meets quarterly to consider key strategic issues and oversee progress.

30 The Council is exploring opportunities for working with other councils to deliver services. Joint working is already in place for the internal audit and revenues and benefits services. The Council plans to merge its human resources and payroll services and then transfer them to the County Council over the next two years, with only a strategic role retained.

31 The Council has a strong ethical framework and culture. It updates its counter fraud and corruption policy yearly and undertakes a quarterly fraud and probity review to ensure any issues identified are followed-up. The Council is an active participant in the National Fraud Initiative (NFI). A partnership arrangement with Winchester City Council has led to a joint fraud team that will focus on high-risk areas. The Council has robust arrangements for handling and responding to whistleblowers and other complainants.

32 The Council has strengthened its approach to risk management. The risk registers are linked to strategic objectives and risks are assigned to named individuals. A partnership risk assessment has been carried out, based on the same format as for the Council's own services, and a separate risk register is now kept for partnerships.

33 The Council's internal audit service works effectively. It had resourcing difficulties during 2009/10 and reduced cover in some lower-risk areas, but a partnership arrangement with two other councils has helped to resolve the problems. The new Audit Committee met for the first time in March 2010 and is proving to be effective in raising the status of audit and ensuring that audit recommendations lead to action.

Managing resources

34 This year I assessed for the first time your arrangements for managing natural resources. The Council is clearly committed to protecting and improving the environment and has been developing its arrangements since 2001. It has set itself a target to decrease carbon emissions by 20 per cent from 2007 levels and is successfully reducing water and energy use. It has adopted a Sustainability Strategy, a Carbon Management Plan, a Biodiversity Action Plan and a Travel Plan. These are based on a good understanding of the Council's effect on its environment. I concluded the Council is among the best in Hampshire in ensuring effective use of natural resources.

35 I did not reassess the Council's management of its workforce this year, but have relied on my judgement from 2008/09 in reaching my conclusion for 2009/10.

Approach to local value for money work from 2010/11

36 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. As a result, the Commission is introducing a new, more targeted and better value approach.

37 I will therefore base my 2010/11 VFM audit work on fewer reporting criteria, specified by the Commission, concentrating on how the Council:

- secures financial resilience; and
- sets priorities for resources within tighter budgets.

38 I will decide a local programme of VFM audit work based on my audit risk assessment, to cover these criteria and my statutory responsibilities. I will no longer provide an annual scored judgement based on my local VFM audit work. Instead I will report the results of this work and the key messages for the Council in my annual report to those charged with governance and my annual audit letter.

Current and future challenges

The public sector economic outlook

39 The recently announced comprehensive spending review anticipates a 28 per cent reduction in Government support for local government over the next four years. Much of this will be front loaded in the first two years. The precise impact on Test Valley Borough Council will not be clear until detailed allocations are published later in 2010. There will also be other changes in the local government financial regime including local management of housing benefits.

40 The Council has considered the likely impact on its finances, and has modelled various scenarios. These show the budget gap for 2011/12 is likely to be between £0.362 and £1.470 million. This assumes:

- council tax increases of 2.5 per cent, subject to the measures the government might introduce to limit rises;
- government grant cuts of 6.25 per cent each year for four years; the government has now announced a 7.1% annual decrease nationally, but the impact on this Council is not yet certain;
- pay inflation based on the government's proposal that those earning over £21,000 receive no increase;
- the employer's pension contribution rate remaining unchanged.

41 Projections for the 2012/13 and 2013/14 suggest the Council will need savings of at least £1.0 and £1.5 million respectively to balance those budgets.

42 The Council faces a major challenge in managing its finances successfully through this difficult period, but has developed robust processes for dealing with this. In particular, the Corporate Challenge process has been successful in finding the necessary savings in recent years, while helping to direct the remaining resources to corporate priorities. Financial forecasts already include recurring savings and extra income of almost £0.8 million from this process, which has also identified savings options worth £0.6 million for 2011/12 and each of the following two years.

43 The Council has kept healthy financial reserves. In March 2010 it had £2.1 million of general reserves and £6.3 million of reserves set aside for specific purposes, representing 2.7 per cent and 7.9 per cent of gross annual spending respectively. The Council's Head of Finance has stated that he regards £1.8 million as the minimum prudent level for the general reserves and the Council has based its budgets on this.

44 The Council intends to revisit its forecasts as the government's plans become clearer through the coming weeks. Key tasks looking ahead will be to continue to identify savings and to ensure that there are robust arrangements in place to deliver them. The Council will also need to continue working with its partners in Hampshire to identify whether there are further savings available from shared services and shared management.

Closing remarks

45 I have discussed and agreed this letter with the Chief Executive and the Head of Finance. I will present it to the Audit Committee on 15 December 2010 and will provide copies to all Council members.

46 I included detailed findings, conclusions and recommendations for the areas covered by my audit in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Plan	April 2009
IFRS transition	November 2009
Opinion audit plan	February 2010
Annual Governance Report	September 2010

47 The Council has taken a positive and helpful approach to our audit. I wish to thank Councillors and staff for their support and cooperation during the audit.

Patrick Jarvis
District Auditor

November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£ 77,000	£ 77,000	£0
Value for money	£ 36,800	£ 36,800	£0
Total audit fees	£113,800	£113,800	£0
Whole of Government Accounts	£ 1,700	£ 1,700	£0
Total	£115,500	£115,500	£0

Please note the fees for certifying grant claims and returns are billed to the Council separately. The planned fee for this is £25,600. While this work is continuing there are no proposed changes to the planned fee at this stage.

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. This includes how it has checked 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.

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.

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