

Annual Audit Letter

Test Valley Borough Council

Audit 2008/09

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from my 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion and financial statements

- 1 I concluded that the Council's financial statements met the required standards and I issued an unqualified opinion on 30 September 2009.

Value for money

- 2 My review of the Council's arrangements to secure economy, efficiency and effectiveness in the use of its resources concluded that satisfactory arrangements were in place at 31 March 2009 and I issued an unqualified value for money conclusion on 30 September 2009.

Actions

- 3 My detailed recommendations have been reported previously to the Council in the specific reports provided in the course of my audit, as shown in Table 3. The main action areas I wish to highlight for Members are as follows.
 - Determining the Council's financial priorities, the level of service provision and potential savings in order to achieve financial balance over the period of its latest medium term financial strategy.
 - Preparing a strategy to identify the staff numbers and skills required to deliver the Council's services over the medium-term, and the plans for providing that workforce.
 - Using service and customer feedback more effectively to establish how service changes affect outcomes and the perceptions of local people, and enhancing arrangements for involving service users, partners and potential service providers in service re-design.
 - Enhancing performance management arrangements by ensuring that performance and finance reporting is more closely integrated.
 - Strengthening the arrangements for providing the core functions of an audit committee and ensuring that the relevant committee considers the Council's Annual Governance Statement.

- Ensuring the finance team has capacity to address key financial challenges, including IFRS transition, during 2009/10.
- Ensuring that fixed assets are reviewed by professional valuers for revaluation or impairment, to support related disclosures in the 2009/10 accounts.

Independence

- 4 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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.

Significant issues arising from the audit

- 5 I completed my audit of the Council's Statement of Accounts and was able to issue an unqualified opinion in September 2009.
- 6 I did not identify any misstatements in the accounts that impacted upon the Council's financial position at 31 March 2009.
- 7 There was one misstatement that officers and Members took the decision not to adjust in the 2008/09 statements. This related to an unexplained discrepancy of £0.141 million identified by the reconciliation of the benefits system and the general ledger. There have been discrepancies of this nature in previous years, which the Head of Finance believes to be due to differences in timings of the two systems, but the figure has increased this year. Officers are continuing to investigate this item with the aim of making appropriate adjustments in the 2009/10 accounts. As the misstatement did not in my view distort the understanding of the financial statements, I was able to accept the Council's decision and give an unqualified opinion.
- 8 Because of the economic downturn over the last year, the values of many of the Council's property assets had fallen markedly. We sought assurance from the Council that their professional valuers had given due consideration to this in providing details of asset revaluations and impairments for the accounts. In reaching a view on this, we made use of advice provided by the Audit Commission's consultant actuaries.
- 9 In practice we found that the Council was unable to provide us with certificates to evidence the asset valuations carried out, and had to complete new valuations for this purpose. This led to several adjustments in order to correct material misstatements in the original figures used to compile the accounts. The main items were as follows.
 - The capital receipt resulting from the sale of the Asda site in Andover had been accounted for at the net value.
 - The Chantry Centre and Andover Leisure Centre had been over-valued.
 - The Council's offices were reported as unchanged in value, but on review were re-valued downwards.
 - Sports pitches at Walworth Business Park had been included twice in the fixed assets balance.
- 10 The Council has undertaken to ensure that all revaluations and impairments for 2009/10 are properly considered and certified by professional valuers.

Annual governance statement

- 11** The Council has reported four significant governance issues in its Annual Governance Statement (AGS) for 2008/09. There is an action plan for addressing these but no indication of the timescale for action or the responsible officers. The plan should be enhanced to include these elements and progress against the plan monitored at an appropriate level.
- 12** CIPFA guidance suggests that internal audit should assess and give an opinion on the effectiveness of the Council's risk management arrangements each year, as part of their responsibilities in providing the annual internal audit opinion and as a contribution to the Council's annual effectiveness review. The Council's Internal Audit carry out regular reviews of risk management and need to ensure this is referred to in their annual opinion.
- 13** There has been no consideration of the AGS by the Overview and Scrutiny Committee, the body to which the Council has delegated overall responsibility for audit and risk management, or by the Audit Panel of that Committee. This means there was no link made at member level between the general oversight of audit and governance arrangements through the year and the year-end summary of the effectiveness of those arrangements.

Transition to international financial reporting standards (IFRS)

- 14** We have carried out a brief review of the Council's arrangements for transition to IFRS accounting and its progress to date. We have concluded that there are some key risks that the Council needs to have regard to. In particular:
 - the lack of a formal plan to ensure the project is deliverable;
 - pressures on the finance team, who are taking the lead on this while being closely involved in the implementation of the new accounting system and managing a demanding workload with reduced capacity following recent staffing changes; and
 - limited engagement to date with the Council's property and valuation professionals, who will be critical to the work required on assets and leases.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 15** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2 and is not regarded as achieving value for money.
- 16** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 17** The Council's use of resources scores are shown in Table 1.

Table 1 Use of resources scores

Use of resources themes and key lines of enquiry	Scored judgement	VFM criterion met?
Managing finances	3	
1.1 Financial planning	3	Yes
1.2 Understanding costs and achieving efficiencies	3	Yes
1.3 Financial reporting	2	Yes
Governing the business	2	
2.1 Commissioning and procurement	2	Yes
2.2 Data quality and use of information	2	Yes
2.3 Good governance	3	Yes
2.4 Risk management and internal control	2	Yes

Use of resources themes and key lines of enquiry	Scored judgement	VFM criterion met?
Managing resources	2	
3.1 Use of natural resources (not assessed this year)	n/a	
3.2 Strategic asset management (not assessed this year)	n/a	
3.3 Workforce planning	2	Yes

18 The assessment has changed this year and, while some aspects are similar to the previous process, overall comparison of scores would not be appropriate. My overall conclusion is that the Council is at level 2 (Performing Adequately) across the three themes. Where I have reviewed similar areas to the previous assessment, it is evident that the Council is making progress. In areas where I have concluded that development is still required, I am satisfied that the Council is taking appropriate action.

Managing finances

19 The Council has a good record of setting realistic budgets, based on the right assumptions and achieving good financial outcomes. This includes achievement of savings and efficiency targets, having delivered £1.8million and over-performed by 27 per cent over the last three years. There is effective in-year monitoring of budgets, but financial reporting is not linked with performance reporting to inform managers, members and taxpayers of what the budgets have delivered.

20 A Medium-Term Financial Strategy (MTFS) was agreed by members in 2008/09 and identified the resources required to deliver corporate objectives and options for bridging resourcing gaps. The subsequent pressures of the economic downturn were managed within the MTFS framework and led to savings being identified for 2008/09 and future years. The Corporate Challenge process led to better alignment of resources with corporate objectives, and the identification of opportunities to move resources out of lower priority areas.

21 The Council has recently agreed a new three-year financial strategy from 2010/11. This is based on a 5 per cent annual reduction in Central Government grant from 2011/12, annual council tax rises of under 3 per cent and maintenance of working balances of 10 per cent of annual revenue expenditure. It leaves the Council with a budget gap of £0.8 million to bridge in 2010/11, rising to nearly £3.0 million in 2012/13, based on a middle-case scenario. Balancing these budgets is to be given top priority by the Council and work is underway to identify efficiencies and other savings for this purpose. Options to address this are to be considered by the Cabinet in December. In addition, the strategy includes a plan of actions required to help the Council achieve balanced budgets.

Value for money and use of resources

- 22** Given the high profile of Treasury Management in the current economic climate, we have reviewed the Council's activities as part of the audit. With a relatively high level of capital balances and a successful record of investment, the Council has been able to rely on the proceeds to support its revenue spending in recent years, and in 2008/09 its investment returns exceeded expectations. However, the rapid fall in interest rates in the early part of 2009 had a significant impact in compiling the budget for 2009/10.
- 23** The Council did not have any investments in failed institutions, but revised its investment policy in response to the changed circumstances and to ensure that it only invests in the most secure organisations. This led to a situation where some investments were held with institutions not covered by the new policy. The Council evaluated the associated risk and decided to retain the investments rather than seek repayment and suffer the associated penalties. All these investments have subsequently matured and the funds have come back to the Council.
- 24** The economic downturn and banking crisis continues to have a very significant impact on public finances and the bodies that manage them. This extends well beyond treasury management, impacting on income streams and the ability of public sector bodies to fund service delivery and capital programmes as well as on patterns of demand for services. I have reflected on the Council's response to these matters and am satisfied that it responded promptly, over the latter part of the 2008/09 financial year, to identify the risks and take action to mitigate them. The 2009/10 budget set by the Council took account of expectations that pressures on income and spending would increase. I am confident that the Council's new financial strategy and its budget management processes are sufficiently robust to respond to these pressures.
- 25** The Council compares its costs with other councils and is satisfied that higher costs are linked to higher standards in priority areas. All new investments are subject to investment appraisals and a full consideration of risk. The Joint Areas of Focus (JAFs) approach is starting to identify how the Council and its partners can contribute more effectively to wider community needs.
- 26** The Council assesses the impact of its strategies and policies on its diverse communities and informs the community on its financial progress and plans. There is no systematic process for engaging the community in the budgetary process but there are examples of how community engagement has influenced spending decisions.

Governing the business

- 27** The Council is clear about what it wants to achieve for local communities and has an outward facing culture that focuses on the areas of most need and deprivation. The Council is committed to the Local Area Agreement targets and has established a Community Strategy to deliver them. This is underpinned by the JAFs process to help identify the best way to meet the needs. The Council's approach to engaging with its communities is being further developed to involve service users, partners and potential service providers in service re-design.
- 28** Action was taken in 2008/09 to strengthen procurement arrangements and opportunities to increase effectiveness were explored, including scope for increasing joint procurement with other bodies.

- 29** Performance outcomes are good with most key targets met for 2008/09, but there was deterioration of performance in a few areas such as planning. Performance management arrangements are underdeveloped, with limited member involvement, but this is now being addressed.
- 30** There are satisfactory governance arrangements in place and a commitment to continuous improvement. Data security arrangements are effective and underpinned by business continuity plans. Internal Audit is effective and the Annual Governance Statement is supported by sound assurance processes. There is a need to strengthen the Council's arrangements for delivering the core functions of an audit committee, and this is being addressed.
- 31** Risk management is now embedded in the Council's management arrangements with a clear corporate focus. There are appropriate and well publicised policies and procedures in place for whistle-blowing and fraud prevention and detection. All appropriate codes of conduct are in place, supported by a strong Standards Committee, and there are excellent working relationships between officers and members.

Managing resources

- 32** This theme covers the use of natural resources, asset management and workforce planning but only the workforce theme was assessed this year.
- 33** The Council has effective approaches to ensuring it acquires the right skills to deliver its services and priorities. An effective staff appraisal system enables services to identify skills development requirements.
- 34** There is no strategic workforce plan in place that identifies the Council's staffing and skills requirements over the next three to five years. Workforce planning is considered primarily at service level, with the identification of medium-term requirements informing the budgetary process.
- 35** There is an effective approach to managing and delivering organisational change, including good processes for engaging with staff and members. This is part of an open culture that has helped to maintain staff morale through difficult circumstances. Staff feel empowered by the arrangements, provide positive feedback and morale has remained high. The Council keeps these processes under review and seeks to continue to learn lessons from them.
- 36** The Council adequately takes account of diversity issues in its people management. It has reviewed all of its Human Resources policies to ensure that they are compliant with legal requirements and all members of staff have received diversity training. A local pay review has been completed. The Council is proactive in ensuring it assesses equality issues across Human Resources practice and has completed a full Equalities Impact Assessment. It has made good progress in delivering the actions in its first equality scheme action plan, which is 70 per cent complete.

VFM Conclusion

37 I assessed your arrangements for obtaining economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission is specifying each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Table 1. I issued an unqualified conclusion stating that the Council had adequate arrangements.

Audit Fees

38 Table 2 sets out a comparison of the planned fees for 2008/09 and the actual fees charged.

Table 2 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£77,150	£69,050	£8,100
Value for money	£36,300	£36,300	£0
Total audit fees	£113,450	£105,350	£8,100
Non-audit work	0	0	0
Total	£113,450	£105,350	\$8,100

39 The variation in the fee for our financial statements work results from the additional, unplanned work that was required. This related mainly to the various issues on asset values and accounting that arose during the audit.

Closing remarks

- 40 I have discussed and agreed this letter with the Chief Executive and the Head of Finance. I will present it at the Cabinet on 16 December 2009 and will provide copies to all members.
- 41 Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Council during the year, as shown in Table 3

Table 3 Reports issued

Report	Date issued
Audit Plan 2008-09	June 2008
Direction of Travel Statement	March 2009
Use of Resources 2009	September 2009
Opinion on Financial Statements	September 2009
VFM Conclusion	September 2009
Annual Governance Report	September 2009

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- 42 The Council has taken a positive and constructive approach to our audit. I wish to thank the Council Members and officers for their support and co-operation during the audit.

Patrick Jarvis
District Auditor
December 2009

The Audit Commission

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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