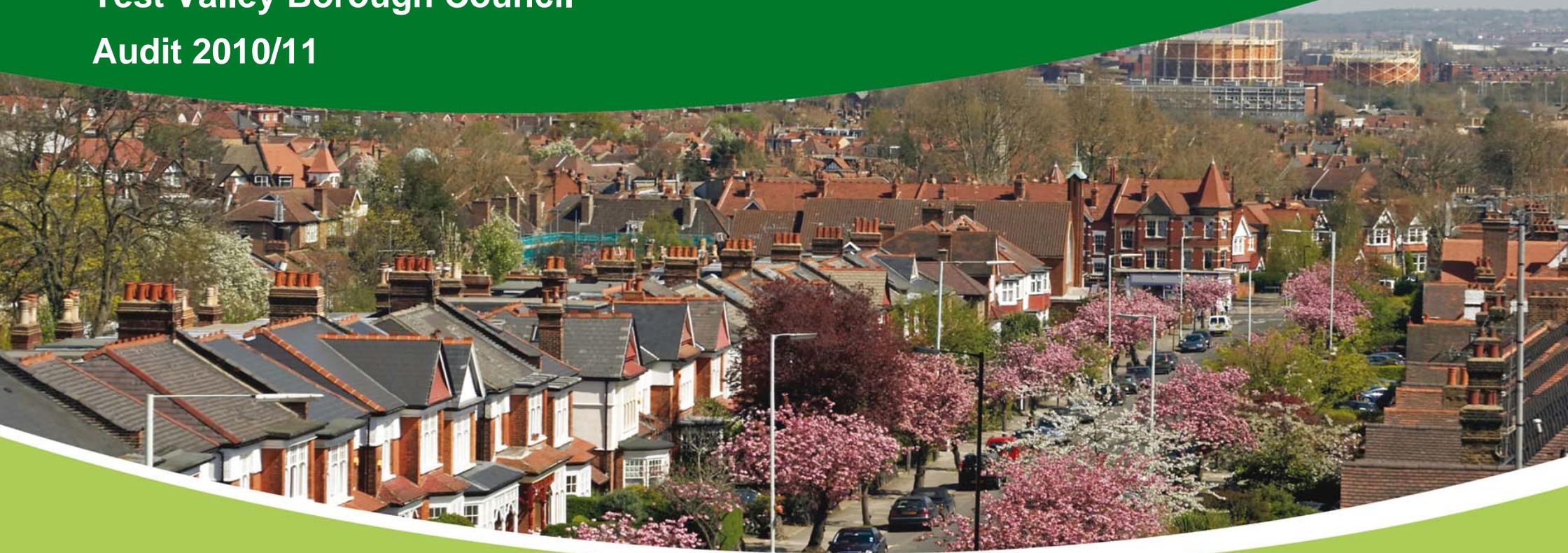


Annual governance report

Test Valley Borough Council

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit which is substantially complete. It includes the messages arising from my audit of the Council's financial statements and the results of the work I have undertaken to assess the Council's arrangements to secure value for money in its use of resources.

	Our findings
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

Audit opinion and financial statements

My work on the Council's Statement of Accounts is substantially complete and I have not identified any material errors. The accounts and supporting working papers were of a good standard. I expect to issue an unqualified audit opinion by 30 September 2011.

If any matters arise between the date of this report and signing the audit opinion that require reporting to those charged with governance, I will communicate them direct to the Leader.

Value for money

My work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is complete and I will issue an unqualified value for money conclusion by 30 September 2010.

I concluded the Council has sound financial management and has managed down its spending to match the reduced funding from government. Its reserves are at a satisfactory level given the Council's record of strong budgetary control.

The main area I identified where there remains scope for improvement is in further strengthening the arrangements for property asset management.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I have complied with the Auditing Practices Board's ethical standards for auditors, including 'ES 1 (revised) – Integrity, Objectivity and Independence'. No relationships resulted in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the Council to:

- take note of the adjustments made to the financial statements which I have set out in this report (Appendix 2); and
 - approve the letter of representation, provided alongside this report, for the Council before I issue my opinion and conclusion.
-

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

The financial statements

I am required to report to you those corrections to the Council's accounts made during my audit that are, in my opinion, both important and relevant to your oversight of financial reporting. I have set these out in Appendix 2. None of these adjustments affected the Council's general fund reserves or net asset position.

Officers made a few other minor presentational amendments to text and disclosures to ensure the Council's statements fully comply with the accounting code of practice. I have not reported these to you individually as, in my view, they are not important or relevant to your responsibilities to oversee financial reporting.

Specific risks identified in my planning

In planning my audit I identified specific risks and areas of judgement. I reported these to you in my Audit Plan in November 2010 and set out below my findings from related audit work.

Key audit risk and our findings

Key audit risk	Finding
<p>1. Transition to IFRS compliant accounts</p> <p>The Code of Practice on Local Authority Accounting requires all principal councils to comply with International Financial Reporting Standards from 2010/11.</p>	<ul style="list-style-type: none">■ I reviewed the Council's restated accounts and comparatives for 2009/10 and its changed accounting policies. I paid particular attention to the higher risk areas of Property, Plant and Equipment, leases and contracts with embedded leases, component accounting; segmental reporting; and accruals for employee benefits.■ My work provided assurance the Council has complied with the requirements of the Accounting Code of Practice and material misstatement of the restated figures is unlikely.
<p>2. New financial systems</p> <p>The Council set up a new IT accounting system from April 2010 and transferred its payroll processing to Hampshire County Council in November 2010.</p>	<ul style="list-style-type: none">■ An Audit Commission IT Assurance Manager reviewed the automated controls in the new Financial Information System for me, and provided assurance that these controls are working effectively.■ I reviewed and tested the General Ledger, Accounts Payable, Accounts Receivable and Payroll systems, placing reliance on Internal Audit's work wherever possible, and gained assurance the figures produced by these systems are unlikely to be materially misstated.
<p>3. Financial pressures</p> <p>The Council is facing continuing pressures on budgets and this could influence the way it reports its financial results.</p>	<ul style="list-style-type: none">■ I have gained assurance on how the Council is responding to the continuing financial pressures.■ I have gained assurance from my testing of the financial statements that any material manipulation of financial results is unlikely.

Significant weaknesses in internal control

My work on your financial systems provided me with assurance the Council's internal controls are effective in ensuring the correct financial information feeds into the general ledger and the financial statements. However, I have recommended that, to strengthen control, there should be arrangements for signing-off control account reconciliations and keeping evidence of sign-off.

My review of the Annual Governance Statement (AGS) showed that it covers all the areas required by guidance and is consistent with our knowledge and understanding of the Council. In addition, in compiling the Statement, the Council has taken account of the issues I raised in my 2009/10 report. However, I identified a few areas where there is scope to further strengthen the statement. I have set these out in the table below.

These weaknesses are only those I identified during the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p>1. Reconciliations</p> <p>My testing found</p> <ul style="list-style-type: none"> ■ no evidence to prove formal reconciliation of the fixed asset register with the property terrier; ■ reconciliations of eFins with the investment register completed several months after period ends; and ■ no evidence of review and sign-off of iWorld and General Ledger reconciliation. 	<p>Errors in accounts might remain undetected unless there are regular reconciliations.</p> <p>Failure to review and sign-off reconciliations could mean they lapse or are late, or completion is ineffective.</p> <p>Failure to save evidence of authorisation and sign-off of reconciliations could lead to doubt about their completion.</p>	<ul style="list-style-type: none"> ■ Ensure regular completion of essential reconciliations, soon after the period end. ■ Ensure a suitable officer reviews and signs-off reconciliations. ■ Keep evidence of reconciliations and sign-off, at least until completion of the audit for that year.
<p>2. Payroll verification</p> <p>Internal Audit identified failure to complete the quarterly refresh of establishment listings and checking to payroll information since the new Payroll system started.</p>	<p>There may be delay in identifying errors in the payroll, with an increased risk of overpayments or fraud.</p>	<p>Ensure completion of quarterly payroll verifications.</p>

Description of weakness	Potential effect	Management action
<p>3. Journal transfers</p> <p>Although the new financial system has facility for authorising journals, there is no requirement to use this facility.</p>	<p>The originator and authoriser of journals can be the same person.</p>	<p>Consider strengthening controls by adopting authorisation procedures.</p>

Quality of the Council's financial statements

I also consider the Council's accounting practices, accounting policies, accounting estimates and financial statements disclosures.

Officers produced the financial statements in line with the agreed timetable, and produced working papers on time and to a good standard to support the entries and disclosures in the accounts. There are no matters I wish to bring to your attention.

I reviewed the Council's Annual Governance Statement (AGS) and concluded that it is a fair reflection of the Council's governance arrangements. However, it could be strengthened through:

- clearer links from the annual Internal Audit report, with the report signalling which, if any, audit issues merit inclusion in the AGS; and
- reference in the AGS to the annual effectiveness review of Internal Audit and any action on weaknesses identified.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

Value for money

I am required to issue a value for money conclusion stating whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources.

I assess the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources against two criteria specified by the Audit Commission. I set out below my conclusion on each of the two areas.

I intend to issue an unqualified conclusion stating the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<ul style="list-style-type: none">■ The Council has a track record of strong financial management.■ It underspent its budget by £1.1m in 2010/11.■ It is keeping balances at a prudent level, ensuring there are funds to meet unexpected costs, deliver key priorities and provide scope for 'invest to save' schemes.■ Its annual budget setting now includes a comprehensive review and challenge of all its spending, and this has enabled it to reduce spending in response to government funding decreases.■ The Council is planning to update its Medium-Term Financial Strategy in October, to take account of its new priorities identified in the Corporate Plan 2011-2015 and ensure the adequacy of continued resourcing.

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The organisation is setting priorities for its resources within tighter budgets, for example by reducing costs and by improving efficiency and productivity.

Findings

- The Council has a record of delivering good value services, compared with similar councils.
- It has continued to develop close working with neighbouring councils and is gradually increasing the number of back-office services it shares with them.
- While the Council has made significant progress in strengthening its management of property assets, there is still work to do to ensure it has a suitable and affordable property estate to meet its future needs.
- The Council has robust arrangements for overseeing performance management and improving VFM and needs to keep the momentum of improvement in recent years, while engaging with the national self-regulation agenda.

Appendix 1 – Draft audit report

Opinion on the Authority accounting statements

I have audited the accounting statements of Test Valley Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Test Valley Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of the Head of Finance's Responsibilities, the Head of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Test Valley Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Test Valley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Test Valley Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Patrick Jarvis

District Auditor

Audit Commission, Collins House, Bishopstoke Road, Eastleigh SO50 6AD

September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjustments	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Classification of pension past-service costs.	Pension past-service costs have reduced because of a change in the index used to calculate pension increases. The draft CI&ES showed this item as a decrease in non-distributed costs under the 'Cost of Services'. Late guidance advised it should be treated as an exceptional item under 'Other Operating Income and Expenditure', and it was adjusted accordingly.	13,180	13,180		
Classification of 'Customer Services' expenditure	The CI&ES now shows Customer Service expenditure in the costs of 'Cultural, Environmental, Regulatory and Planning Services', to comply with BVACoP, rather than in the costs of the 'Corporate and Democratic Core'.	1,127	1,057		
		1,057	1,127		

Capital Expenditure and Financing (Note 22)	The 2009/10 figures combined PPE and Intangible Assets. The note has been amended to show the £477,000 spending on intangible assets separately.
Cash-flow statement	The cash-flow statement did not reflect late adjustments of £420,000 to the balance sheet or include the closing capital creditor, but has now been amended.
Minimum lease rentals receivable (Note 17)	The 2009/10 and 20010/11 figures were transposed, but has now been amended.

Appendix 3 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether the audited body has prepared them properly, following the relevant accounting rules.

Opinion

If I agree the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Consideration of materiality may also apply for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and upholding a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support achievement of strategic priorities.

If I find the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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

