

Annual Audit Letter

Test Valley Borough Council

Audit 2010/11



Contents

- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Value for money3
- Current and future challenges4**
- Financial statements and annual governance statement.....5**
 - Overall conclusion from the audit.....5
 - Significant weaknesses in internal control.....5
- Value for money.....6**
 - How I formed my value for money conclusion.....6
 - Financial resilience.....6
 - Securing economy efficiency and effectiveness.....7
- Closing remarks9**
- Appendix 1 – Fees10**
- Appendix 2 – Glossary.....11**

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two parts:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

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

Audit opinion and financial statements

I issued an unqualified opinion on the Council's financial statements on 30 September 2011.

The Council prepared its accounts against a background of the transition to IFRS accounting. Despite this added complexity, the financial statements and supporting working papers were of a good standard and I did not identify any material errors.

Value for money

I issued an unqualified VFM conclusion on 30 September 2011.

My work in support of the VFM conclusion showed the Council:

- has sound financial management which has enabled it to manage down its spending while preserving essential services; and
- holds reserves that, given its record of strong budgetary control, should be enough to meet unexpected financial demands and to help deliver corporate priorities.

This has put the Council in a good position to meet the challenges of continuing financial pressures.

The main area I identified for improvement is the arrangements for property asset management, which the Council is already addressing.

Current and future challenges

The Council made significant cuts to its 2010/11 budgets in response to reduced funding from government. Even so, it was able to keep its spending below the reduced budgets and to increase reserves at the year end by £1.1 million.

The government is continuing its policy of cutting public spending and the impact of this will continue to dominate the Council's agenda. Having based its 2011/12 budget on achieving savings of £3.4 million, the Council needs to find another £1.6 million savings over the next three years to keep its finances in balance.

The main challenges for the Council over the next 12 months include:

- delivering the savings needed to bridge the budget gap;
- preserving the level and standard of priority services with reduced funding and capacity;
- responding to pressures on income streams and services for vulnerable people because of the continuing economic downturn;
- continuing to develop procurement arrangements once a new Procurement Officer is in post; and
- completing the project to ensure it gets value for money from its property estate.

Other challenges the Council will face over the next few years, include:

- changes proposed in the government's Welfare Reform Bill, including new arrangements for housing and council tax benefits;
- changes proposed in the government's Localism Bill, including new arrangements for funding social housing and for enabling local groups to take over community facilities and services; and
- government proposals to allow local authorities to keep their business rates.

My work for the 2011/12 VFM conclusion will take account of how the Council is responding to these challenges.

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.

Overall conclusion from the audit

I issued an audit report including an unqualified opinion on the Council's financial statements. Officers produced the financial statements in line with the required timetable, and the statements and supporting working papers were of a good standard. I asked officers to make a few adjustments to the accounts but these were not material and did not affect the Council's general fund reserves or net asset position.

I reviewed the Council's Annual Governance Statement (AGS) and decided it reflects fairly the Council's governance arrangements. However, the statement would be stronger if:

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

Significant weaknesses in internal control

The Council has a sound system of internal control. For 2010/11 the Internal Audit Partnership Manager was able to provide the Council with 'substantial assurance' on the effectiveness of its control framework.

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. I recommended the Council strengthen control by ensuring there are arrangements for signing-off control account reconciliations and keeping evidence of sign-off, and it is now putting arrangements in place.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the two criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

My overall conclusion is the Council has satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. One of the main challenges for the Council has been to strengthen arrangements for ensuring it obtains good value from its property assets, and the Council's record of steady improvement in performance in recent years gives me confidence it will continue to tackle this.

How I formed my value for money conclusion

To form my view on the Council's arrangements, I planned a programme of VFM audit work based on my risk assessment. This included the following.

- Capturing what I knew already from last year's work, the Audit Commission's VFM profiles, my continuing reviews of minutes and discussions with officers.
- Considering risks that are common to some or all local authorities, including:
 - the government's spending review;
 - preserving essential services and effectiveness with reduced funding;
 - the new public services transparency requirements; and
 - sector self-regulation and improvement.

I set out below my conclusions on each specified criterion.

Financial resilience

The Council has a track record of strong financial management. Its budget setting and budgetary control arrangements are effective and it is keeping prudent reserves to help deliver corporate priorities and meet any unexpected financial demands. The Council has responded to the decrease in government funding by undertaking a comprehensive review and challenge of all its spending. This has enabled it to identify savings while seeking to preserve the level and standard of its services. Despite these pressures, the Council underspent its budget by £1.1 million in 2010/11.

Government support reduced by £1.6 million from 2010/11 to 2011/12, and budgets reduced by £3.4 million to deliver a balanced budget for 2011/12 and prepare for more cuts in funding for 2012/13. The savings identified, and the Council's strong financial management give me confidence the 2011/12 budget is achievable.

The Council earns significantly more than most other councils from investment income, on balances earned largely from the sale of its houses several years ago. This provides a valuable source of income, but the collapse in interest rates has reduced this significantly. Once the national economy starts to pick up and interest rates return to normal, the Council should be in a strong position.

The Council has recently updated its Medium-Term Financial Strategy to take account of the new priorities it has set in its Corporate Plan 2011-2015 and to ensure it has the resources to deliver them within a balanced budget.

Over the last three years the Council has been working to improve its arrangements for estates management, and Internal Audit have overseen and commented on developments. The Council is making good progress, but there is more to do. It has brought its property records up-to-date, and recruited a building surveyor to lead on asset management. It has prepared a property maintenance programme, which will inform the 2012/13 property maintenance budget. It now needs to ensure that decisions on disposal and acquisition of properties consistently take account of their maintenance and running costs.

Securing economy efficiency and effectiveness

The Council's overall spending per head of population has been close to the median for similar district councils in recent years. I have previously reached the view the Council's rather high-spending on some services reflected its corporate priorities and relatively good performance. For specific services, I have previously commented on the performance of the planning service but this is now showing signs of improvement, with the service having bettered its targets for processing all categories of planning applications in 2010/11.

The Council has consistently met its targets for efficiency savings and has kept its corporate costs relatively low. Its slow progress in developing procurement arrangements to exploit fully the savings available is because of a vacant Procurement Officer post which it is now seeking to fill.

The Council has dispensed with its post of Policy and Performance Manager which had lead responsibility for performance management and VFM across the Council. It is important the arrangements that replace this can continue the excellent progress made in recent years, while also promoting engagement with the developing national agenda on self-regulation. Performance reports to the Performance Boards are now of a good standard and I can have confidence the Council is overseeing and challenging performance effectively.

The Council is continuing to strengthen its arrangements for ensuring it obtains good value for money from its properties. It now has a draft Asset Management Plan, which the Cabinet will consider in November. It has assigned responsibilities for asset management, with oversight by a Corporate Asset Management Group and a recently appointed building surveyor as lead officer. It is now progressing an accommodation review with the aim of making more efficient use of office space. The Council is also planning to review its whole estate to ensure it is affordable and meets service needs.

The Council has made good progress in identifying opportunities for shared service delivery with other councils, and is now sharing many back-office functions including Internal Audit, HR and payroll, revenues and benefits and IT.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and Head of Finance. I will present this letter to the Cabinet on 30 November and the Audit Panel on 14 December 2011 and will provide copies to all Council members.

I set out below, for information, the reports I have issued to the Council during the year.

Report	Date issued
Initial fee plan	April 2010
Audit Plan	November 2010
Annual Governance Report (including audit opinion and VFM conclusion)	September 2011

The Council has taken a positive and constructive approach to my audit. I wish to thank the Council staff for their support and cooperation during the audit.

Patrick Jarvis
District Auditor

October 2011

Appendix 1 – Fees

	Actual	Proposed
Audit fee	£120,300	£120,300
Whole of Government Accounts	£1,700	£1,700
Total	£122,000	£122,000

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. Thus includes how it has monitored the effectiveness of its governance arrangements in the year and any planned changes in the coming period.

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 they have been prepared properly, following the relevant accounting rules.

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.

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.

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.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.

