

Annual governance report

Test Valley Borough Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my 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.

Financial statements

As at 14 September 2012 I expect to issue an unqualified audit opinion. My key messages are:

- As in prior years, your financial statements presented for audit were of good quality;
- Working papers were comprehensive and fully supported the draft financial statements;
- The number of audit adjustments was minimal and these were all dealt with during the audit process; and
- You chose to adjust all the errors identified during the audit so there are no non-adjusted errors for me to report.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Before I give my opinion and conclusion

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 can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

I ask the General Purposes Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 2);
- approve the letter of representation (appendix 3), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 5).

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected 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 the following outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. The key outstanding matters as at 14 September are:

- confirmation that all audit adjustments arising from my work have been carried out; and
- receipt of the signed letter of representation.

Appendix 1 contains a copy of my draft audit report

Corrected errors

The number of errors requiring correction was low and I commend the Council for this. The most significant were:

- The cashflow statement was not consistent with the rest of the financial statements and working papers; and
- There were non-compliant entries within the Capital Receipts Reserve and Capital Adjustment Account that required reclassification but did not affect the final balances of these reserves.

The corrected errors are explained in more detail at Appendix 2.

Significant risks

My Audit Plan dated March 2012 identified no significant risks to my audit of your financial statements.

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have identified no significant weaknesses in your internal control arrangements that require reporting to you.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- Other audit matters of governance interest.

I have no matters I wish to report.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. My March 2012 Audit Plan identified no significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 1: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</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>	<p>Test Valley Borough Council, like all councils, is experiencing reduced central government funding. The Medium Term Financial Strategy (MTFS) identifies the funding position in the next few years, together with the savings implications. It makes reasonable assumptions regarding further funding reductions, and there is a clear plan to revisit these in the preparation of the budget strategy for the October 2012 Cabinet. This will include the impacts of the changes through localisation of business rates and the council tax benefits.</p> <p>My audit of the financial statements for 2011/12 found that the Council has achieved a surplus above its budget and savings targets of approximately £1.2 million. This was achieved through the following key sources, reported within the Council's budget outturn report:</p> <ul style="list-style-type: none">■ 489k from efficiency and savings reviews and improved vacancy and sickness management;

Criteria

Findings

- 342k from additional fees and charges (i.e. car parking, planning, etc);
- 169k slippage in revenue expenditure where budget has been carried over to 2012/13;
- 137k reduction in benefits expenditure; and
- 100k additional grant income including 70k 'New Homes Bonus'.

However, a significant proportion of the £1.2 million budget surplus was only identified at year end and the Council should ensure that its budgetary control processes identify budget variances as early as possible so that budgets can be adjusted accordingly and timely action taken where necessary.

The Council maintains a prudent balance on its General Fund of £2 million. It also has a further £46.5 million of usable reserves, that is funding the Council has at its disposal to allocate to future expenditure. Of this, £10.7 million is earmarked against specific costs and projects and £35.8 million is held within the Capital Receipts Reserve, which represents the capital transactions and receipts of the Council. This shows that the Council is moving forward with a strong base of usable reserves.

2. Securing economy efficiency and effectiveness

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

Focus for 2011/12:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council has a clear strategic framework in place to determine the allocation of its resources. Its Corporate Plan sets out its priorities, linking to other corporate documents such as the Strategic Planning Framework and Community Plan. Test Valley has identified the need for partnership working and has plans in the form of Joint Area of Focus (JAF), which bring together partners to maximise focus and impact. The Council has in place a Local Development Framework (LDF) which details how the new Corporate and Community Plans are to be delivered.

The Council is in partnership with Kier Group to regenerate Walworth Business Park in a project worth over £30 million – the biggest capital project that Test Valley has ever been involved with. While the rewards

Criteria

Findings

from this project aim to secure the financial future of the Council, there are also risks in the short to medium term, such as:

- Being unable to realise the economic outcomes from the original business plan within the original timescales;
- Delays in implementing the contract; and
- The need for effective contract monitoring arrangements and internal controls.

As at August 2012 the project is progressing to plan and management arrangements are being refined and strengthened, including responding to reviews by Internal Audit.

In light of known weaknesses dating back to 2008 and recommendations made by external audit in 2011, the Council has strengthened its asset management arrangements. The new asset management plan was approved in November 2011, condition surveys have been implemented, and a disposals and acquisitions programme is now in place. However, there is currently no structured resource plan in place to support the five yearly cyclical maintenance plan beyond 2013/14, which is needed to comply with key recommendations made by internal audit during 2011/12.

Recommendation

R1 The Council should ensure that its budgetary control processes identify budget variances as early as possible so that budgets can be adjusted accordingly on an ongoing basis, and timely action taken where necessary.

R2 The Council's medium term financial strategy needs to address the financing needs of the five yearly cyclical asset maintenance plan for 2013/14 onwards.

Fees

I reported my planned audit fee in the March 2012 Audit Plan.

As at September 2012, I expect to complete the audit within the planned fee.

Table 2: **Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	£115,900	£115,900
Claims and returns	£29,162	£29,162
Total	£145,062	£145,062

The Audit Commission has paid a rebate of 8% of the planned fee (£9,272) to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £135,790.

The 2011/12 audit was delivered in 134 days which is the number of days planned within the scale fee.

Appendix 1 – Draft independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEST VALLEY BOROUGH COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Test Valley Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Responsibilities for the Statement of Accounts 2011/12, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on 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 Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Test Valley Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 2011, 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 2012.

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 2011, 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 ended 31 March 2012.

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.

Kevin Suter

Officer of the Audit Commission

Audit Commission
2nd Floor, Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD

September 2012

Appendix 2 – Corrected errors

The following errors were identified during the audit which management has addressed in the revised financial statements. None of the errors identified below affect the bottom line financial position of the Council.

Items impacting on the primary statements		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Comprehensive Income and Expenditure Statement (CIES) and Note 21	Profit on disposal of investment property actually relates to items of Property Plant and Equipment (PPE) This income is to be reclassified to Loss/(Profit) on disposal of PPE	CIES – profit on disposal of investment properties 224k	CIES – profit on disposal of PPE 224k		
Note 23 - Cash and cash equivalents Note 26 – Creditors	Un-cashed cheques for a closed bank account within cash balances should be reclassified to creditors			Cash 117k	Creditors 117k
Note 23 - Cash and cash equivalents Note 25 – Debtors	Prepayments included within cash balance should be reclassified to debtors balance			Debtors 358k	Cash 358k
Balance sheet Movement in Reserves (MiR) Statement Note 29 – Usable reserves Note 30 – Unusable reserves	Accounting treatment of asset purchases treated incorrectly within reserve balances. General Fund and grant transfers have been sent to the Capital Receipts Reserve rather than the Capital Adjustment Account			Grants 774k General Fund transfers 1,167k Finance leases 170k	Asset purchases 1,545k REFCUS 566k

Items impacting on the primary statements		Statement of comprehensive income and expenditure		Balance sheet	
				Total	Total
				2,111k	2,111k
Items affecting disclosure only		Statement of comprehensive income and expenditure notes		Balance sheet and other statements	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Note 32 - Financial instruments	Prepayments incorrectly included within analysis.			Note 32 1,167k	No corresponding entry
Cash flow statement	Financing and investment activity included in operating activities			Financing and investment activities 1,144k	Operating activities 1,144k

Appendix 3 – Draft letter of management representation

Test Valley Borough Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other managers of Test Valley Borough Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements

A restatement of £9,866k was made to correct a material misstatement in the prior period financial statements. This affects the comparative information in the Comprehensive Income and Expenditure Statement (CIES). Written representations previously made in respect of the prior period remain appropriate.

I confirm that this letter has been discussed and agreed by those charged with governance on 5 September 2012.

Signed on behalf of Test Valley Borough Council

Name

Position

Date

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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

The concept of '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.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. In your case, Cabinet performs the role of those charged with governance.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 5 – Action plan

Recommendations

Recommendation 1

The Council should ensure that its budgetary control processes identify budget variances as early as possible so that budgets can be adjusted accordingly on an ongoing basis and timely action taken where necessary.

Responsibility

Priority Medium

Date December 2012

Comments

Recommendations

Recommendation 2

The Council's medium term financial strategy needs to address the financing needs of the five yearly cyclical asset maintenance plan for 2013/14 onwards.

Responsibility

Priority Medium

Date December 2012

Comments

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

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

