

Annual Governance Report

Test Valley Borough Council

Audit 2008/09

Date 24 September 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 the 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Audit opinion and financial statements

- 1 Subject to the satisfactory completion of the few remaining audit tasks, including agreement of the final revised version of the statements, I expect to issue an unqualified opinion on the financial statements on 30 September 2009.
 - 2 The financial statements submitted for audit were complete. Based on the work that we have already completed there are no adjustments that will impact upon the Council's financial position at 31 March 2009.
 - 3 However, there is only one misstatement that officers have declined to adjust and several other misstatements above our 'non-trivial' threshold of £13,000 that have been adjusted within the financial statements.
 - 4 The arrangements for production of your financial statements are satisfactory and the draft financial statements were produced before the statutory deadline. The working papers produced to support the financial statements were of an adequate standard in most cases.
 - 5 I am satisfied that the Council has addressed each of the key risks that I highlighted for the audit of your financial statements within my supplementary fee plan and that the financial statements are free from material errors or uncertainties.
-

Use of resources

- 6 Our work to assess the Council's arrangements to secure economy, efficiency and effectiveness in the use of its resources is complete. I am satisfied that the Council had satisfactory arrangements in place at 31 March 2009 and will therefore issue an unqualified value for money conclusion on 30 September 2009.
 - 7 We have completed our Use of Resources assessment based on the Key Lines of Enquiry (KLOE) that have been determined by the Audit Commission. I concluded that the Council is at level 3 (performing well) for the Financial Management theme and at level 2 (performing adequately) for the Governing the Business and Managing Resources themes. These scores are subject to any changes that could result from a request of the Council for an independent review by the Audit Commission.
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Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

8 I ask the General Purposes Committee to:

- consider the matters raised in the report before authorising the financial statements for issue (pages 5 to 9);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the misstatement in the financial statements I have identified which management has declined to adjust, or set out the reasons for not adjusting it (Appendix 3);
- take note of the VFM Conclusion and Use of Resources scores;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

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 authorise the financial statements and the annual governance statement for issue.

Opinion on the financial statements

- 9** 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 audit report.
-

Errors in the financial statements

Unadjusted misstatements

- 10** Based on the work that we have completed, there are no misstatements that have impacted upon the Council's financial position at 31 March 2009. We have identified one misstatement above our triviality threshold of £13,000 that officers have declined to adjust.
- There is 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. The accountants are to investigate this further, and any adjustments necessary will be made in the 2009/10 accounts.

Property asset valuations and accounting entries

- 11** Because of the economic downturn over the last year, the value of many property assets has fallen markedly. We have sought assurance from the Council that their professional valuers have given due consideration to this in providing details of revaluations or impairments for the accounts. In reaching a view on this, we have made use of advice provided by the Audit Commission's consultant actuaries.
- 12** In practice we found that the Council was unable to provide us with valuation certificates to evidence the asset valuations completed and had to complete new valuations to provide evidence on the individual assets that we enquired about. This has led to several adjustments to correct material misstatements in the original figures used in compiling the accounts. The main adjustments are as follows:
- The capital receipt resulting from the sale of the Asda site in Andover had been accounted for at the net value of £4.7 million. The accounting entries have now been adjusted to show the cinema costs and the gross receipts. The impact has

been to increase impairments by £2.2 million, with corresponding movements on capital and revaluation reserves.

- The Chantry Centre had been over-valued and is now shown at a reduced valuation, £2.1 million lower than originally reported;
- The Andover Leisure Centre had been under-valued and is now shown at an increased valuation, £1.7 million higher than originally reported;
- We challenged the assertion in the accounts that the Beech Hurst and Duttons Road offices had not changed in value despite the economic downturn, and an impairment of £0.719 million has now been disclosed. The valuation of the cinema has also been adjusted, with the impairment being reduced by £0.224 million.
- Sports pitches at Walworth Business Park had been included twice in the fixed assets balance, and values have now been reduced by £0.6 million to correct for this.

13 Some fixed assets appear to be classified inconsistently. Operational assets in the balance sheet include the Council's industrial estates, but shopping centres are included in non-operational assets. The Council needs to satisfy itself that these classifications are appropriate.

Adjusted misstatements

14 Officers have made other adjustments to the financial statements to correct misstatements, as listed below. Some of these are above our materiality level for opinion purposes of £1.3 million. This list includes all items that are above our triviality threshold, and is longer than in previous years because our practice is now to set this threshold at 1% of materiality rather than the previous 10%.

- Impairments of £24 million have been charged against fixed assets to recognise the reduction of property values as a result of the prevailing economic climate. These were shown in the Income and Expenditure account as a single exceptional item. In order to be consistent with SORP guidance, they have now been adjusted to show separate exceptional items under each relevant service expenditure line in the statement.
- A £4.2 million under-valuation of land at Picket Twenty included in the Council's 2007/08 balance sheet was adjusted through a Prior Period Adjustment (PPA). However, the SORP suggests that PPAs should be used only where errors are fundamental and could destroy the validity of the accounts. In all other cases, errors should be corrected in-year. Although the sum is material, we do not regard it as fundamental in the terms of the SORP. The PPA has now been removed and the adjustment made in the 2008/09 accounts.
- The VAT reclaimable on part of the costs of the new cinema had been under-recorded by £85,000 and the Council is now seeking to reclaim the additional sum.
- Six journals affecting the 2008/09 accounts were processed after the accounts had been approved by members. These affected only the reallocation between services of internal costs of £0.481 million and had no affect on the Council's overall financial position. The financial statements have now been amended in line with the accounting records.

Financial statements

- A change in the requirements for valuing pension fund assets meant that the opening liability of the pension fund increased by £80,000. This was shown as a prior period adjustment, but does not meet the SORP requirement that PPAs should only be made for matters fundamental to an understanding of the accounts. This has now been adjusted so that the change is reflected within the 2008/09 figures.
- The cash flow statement has been amended to adjust the incorrect treatment of the Collection Fund deficit and change the analysis of capital movements
- The balance sheet figure for Community Assets includes the civic regalia. These items were revalued in the year and the increase of £0.175 million shown in Operational Asset Revaluations in Note 18. Under the SORP requirements, community assets should not be revalued and the statements have now been adjusted.
- Pension fund disclosures in Note 35 omitted unfunded liabilities of £0.2 million. The accounts have been adjusted to include these.
- Impairments of £23.8 million were shown alongside depreciation in Note 18 on operational and non-operational fixed assets, but are now shown with costs and revaluations, in accordance with SORP requirements. Other adjustments to impairments mean that the total value in the adjusted accounts is now £26.5 million.
- Several other disclosure notes to the accounts have been adjusted in response to points raised at audit.

Recommendation

R1 Consider the unadjusted misstatement detailed above and whether this should be adjusted before the financial statements are authorised for issue.

R2 Take action to improve the arrangements for certifying the values of the Council's property assets.

Material weaknesses in internal control

15 The supporting documentation presented for audit included no certificates from a qualified valuer to support the valuations and impairments of Council properties included in the financial statements, and no such certificates could be located. The valuations have subsequently been repeated and certificates provided to support the balance sheet position.

Annual governance statement

16 There are four significant governance issues identified in the 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.

- 17 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.
- 18 There has been no consideration of the AGS by OSCOM, the body with overall responsibility for audit and risk management, or by the Audit Panel of OSCOM. This means there is 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.
- 19 Last year we recommended that the AGS should include details of how the Council identifies and provides for the development needs of members, in line with CIPFA’s best practice guidance. While we are confident that the Council is providing its members with effective training to meet their needs, this information is again omitted from the AGS.

Recommendation	
R3	Ensure that a comprehensive set of valuation and impairment certificates is included with the supporting documents for the financial statements.
R4	Develop the action plan for significant governance issues in the AGS to specify the officers responsible and the timescales for action.
R5	Provide OSCOM with the opportunity to comment on the AGS, based on their responsibility for audit and risk management.
R6	Include in the AGS details of how the Council identifies and provides for Members’ development needs.

Letter of representation

- 20 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation that I am seeking from you.

Key areas of judgement and audit risk

- 21 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk in our audit plan	Finding
The accounts show a significant impairment of fixed assets, which has had a material impact upon the reported service costs for the year.	We have considered the impairments and satisfied ourselves that they are supportable and that, subject to the changes referred to above, the accounting treatment is appropriate.
The Council has significant sums invested with institutions that are no longer on its approved list.	All of these sums have subsequently been repaid to the Council in full. We are satisfied that the Council sought to balance the risks and benefits of continuing to hold these investments and that their value is correctly reported in the financial statements.
The Council has disposed of land at Anton Mill Road and Picket Twenty to developers, and the proceeds will be recognised in its accounts in more than one year.	We have obtained assurance that the proceeds of these sales have been correctly brought into the accounts and, subject to the adjustments referred to above, recognised in the appropriate financial years.
Changes to the 2008 SORP, for example in respect of fixed asset disposals and financial instruments.	We have obtained assurance that the new requirements have been complied with.

Use of resources

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

I am also required to conclude 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

- 22** 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.
- 23** 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.
- 24** The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes are summarised below and the scores by KLOE are shown in Appendix 5. These scores are subject to any changes that could result from a request by the Council for an independent review by the Audit Commission

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	2

Managing finances

- 25** 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.
- 26** There is a Medium-Term Financial Strategy (MTFS) that was agreed by members in 2008/09 and identifies the resources required to deliver corporate objectives and

Use of resources

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 has led to better alignment of resources with corporate objectives, and the identification of opportunities to move resources out of lower priority areas.

- 27 The Council has managed financial pressures well over 2008/09. Treasury management has achieved good returns and additional contributions have been made to reserves.
- 28 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 approach is starting to identify how the Council and its partners can contribute more effectively to wider community needs.
- 29 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.

Areas for improvement

Update the MTFS to ensure that it takes account of the changed economic circumstances.

Seek greater engagement with the community in setting future service and financial plans.

Integrate financial and performance reporting in order to provide a comprehensive picture of achievement and ensure decisions are soundly based.

Seek stakeholders' views on the format and content of published accounts.

Governing the business

- 30 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 has been underpinned by Joint Areas of Focus (JAFs) with partners to help identify the best way to meet these needs. However, the Council's approach to engaging with its communities is underdeveloped, and could be more systematic in involving service users, partners and potential service providers in service re-design.
- 31 Action has been taken to strengthen procurement arrangements and opportunities to increase effectiveness are being explored, including scope for increasing joint procurement with other bodies.
- 32 There are adequate arrangements in place for ensuring data quality. These could be strengthened by promoting the data quality approach with staff and providing more support and oversight of data collection and collation.

- 33 Performance outcomes are good with most key targets met for 2008/09. However, performance management arrangements are underdeveloped, with limited member involvement. This is being addressed. Although there is good monitoring against targets at service level, there has been deterioration of performance in a few areas such as housing benefits and planning. The Council needs to use service and customer feedback more effectively to establish how service changes affect outcomes and the perceptions of local people.
- 34 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 a 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 considered.
- 35 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.

Areas for improvement
Enhance arrangements for engaging with the community and other stakeholders in exploring alternative approaches to service delivery.
Strengthen data quality through greater promotion of the strategy and support for the process.
Strengthen performance management by providing regular reports to members through the year.
Ensure that there are sound arrangements for delivering the core functions of an audit committee.

Managing resources

- 36 This theme covers the use of natural resources, asset management and workforce planning but only the workforce theme was assessed this year.
- 37 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.
- 38 There is no strategic workforce plan in place that identifies the Councils future 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.
- 39 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

Use of resources

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.

- 40** The Council's approach to delivering diversity on people management is adequate. It has reviewed all of its HR 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 HR 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.

Area for improvement

Develop a strategic workforce plan to identify medium-term skills and staffing needs and set out how this will be achieved over time.

Value for money conclusion

- 41** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify 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 Appendix 5.
- 42** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Appendix 1 – Independent auditor’s report to Members of Test Valley Borough Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Test Valley Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Head of Finance and auditor

The Head of Finance’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Appendix 1 – Independent auditor’s report to Members of Test Valley Borough Council

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority’s financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Test Valley Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

I certify that I have completed the audit of the accounts 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, Hants SO50 6AD

September 2009

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 3

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Adjusted figures					
Fixed assets	Double counting of Walworth sports pitches	610			610
	Andover Leisure Centre increased value			1700	1700
	Additional impairments on Cinema and Council offices	2,703			2,703
	Impairment of Chantry Centre	1,700			1,700
Revaluation Reserve	Chantry Centre write-off			449	449
Capital receipts and related capital spending	To gross-up the Asda site capital receipt, in respect of Cinema costs			2,292	2,292
Pension Fund	Unfunded liabilities omitted	200			200
Operational assets	Civic regalia revalued in error		175		175
VAT	VAT unclaimed on Warm Shell fit out of Cinema			85	85

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Revenue contributions to capital	Figure double counted			37	37
Re-classified items					
Exceptional item – impairments of assets	To remove the single exceptional item and replace it with items against relevant service lines in the Net Cost of Services	24,000	24,000		
Prior period adjustment of asset values	Fixed Assets and Revaluation Reserve			4,200	4,200
Late posting of journals	To bring the financial statements into line with the accounting records following the late processing of some journal transfers	481	481		
Pension fund valuation	To reflect in year the adjustments to pension fund liabilities previously shown as a prior period adjustment.			80	80
Cash flow statement	Various adjustments				
Notes to the accounts	Various adjustments				

Appendix 3 – Unadjusted misstatements in the accounts

The following misstatement was identified during the course of my audit and the financial statements have not been adjusted by management. I bring this to your attention to assist you in fulfilling your governance responsibilities. If you decide not to adjust it, please tell me why in the representation letter. If you believe the effect of the uncorrected error is immaterial, please reflect this in the representation letter.

Table 4

Description of error	Accounts effected	Value of error £Million
Discrepancy between ledger and benefits systems figures	Net cost of services – Housing Services	0.141

Appendix 4 – Draft letter of representation

Patrick Jarvis
District Auditor
Audit Commission
Collins House
Bishopstoke Road
Eastleigh
Hants SO 50 6AD

Dear Patrick

Test Valley Borough Council - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Test Valley Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatement

There is an unadjusted discrepancy of £141,000 between the ledger and benefits systems figures. I confirm that I believe that the effect of this is not material to the financial statements. It has been discussed with those charged with governance within the Council and the reasons for not adjusting it are as follows:

- There is no integration between the I-World Benefits system and the Forte General Ledger system. All reconciliations therefore have to be done manually. The I-World system has a different end of year cut-off period to the Forte system, making such reconciliations difficult. Having examined the financial records going back over six years, it appears that a discrepancy has always been present. However, this is the first year where the total has been above the triviality threshold. No adjustment has been made to the accounts, because the difference is almost certainly a timing

Appendix 4 – Draft letter of representation

issue. The contract for a new Financial Information System due to be implemented by 1st April 2010, specifies that there will be a full interface between the I-World Benefits system and the General Ledger, which should make reconciling the two systems an automatic process from next year. Work will continue to try to identify the discrepancy before balances are carried forward at the end of this year.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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; and
- 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.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For these assumptions, I confirm:

- the appropriateness of the measurement method;

- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement, they have been actioned.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

Appendix 4 – Draft letter of representation

The asset values reported in the Councils financial statements are consistent with the views of professionally qualified valuers, based on their valuations or reviews for impairment.

Signed on behalf of Test Valley Borough Council

I confirm that this letter has been discussed and agreed by the General Purposes Committee on 30 September 2009

Signed

William Fullbrook, Head of Finance

Councillor I R Carr, Chairman of General Purposes Committee and Leader of the Council

30 September 2009

Appendix 5 – Use of resources scored judgements

Theme One score: Managing finances	3
KLOE 1.1 (financial planning)	
Score	3
VFM criterion met	Yes
KLOE 1.2 (understanding costs and achieving efficiencies)	
Score	3
VFM criterion met	Yes
KLOE 1.3 (financial reporting)	
Score	2
VFM criterion met	Yes
Theme two score: Governing the business	2
KLOE 2.1 (commissioning and procurement)	
Score	2
VFM criterion met	Yes

Appendix 5 – Use of resources scored judgements

KLOE 2.2 (data quality and use of information) Score VFM criterion met	2 Yes
KLOE 2.3 (good governance) Score VFM criterion met	2 Yes
KLOE 2.4 (risk management and internal control) Score VFM criterion met	2 Yes
Theme three score: managing resources	2
KLOE 3.1 (use of natural resources) Score VFM criterion met	Not assessed this year n/a n/a
KLOE 3.2 (strategic asset management) Score VFM criterion met	Not assessed this year n/a n/a
KLOE 3.3 (workforce planning) Score VFM criterion met	2 Yes

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	Consider the unadjusted misstatement detailed above and whether this should be adjusted before the financial statements are authorised for issue.					
8	Ensure that a comprehensive set of valuation and impairment certificates is included with the supporting documents for the financial statements.					
8	Develop the action plan for significant governance issues in the AGS to specify the officers responsible and the timescales for action.					
8	Provide OSCOM with the opportunity to comment on the AGS, based on their responsibility for audit and risk management.					
8	Include in the AGS details of how the Council identifies and provides for Members' development needs.					

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