

Annual Audit Letter

Havant Borough Council

Audit 2010/11



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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.**

Key audit risk	My findings
Unqualified audit opinion	Yes
Proper arrangements to secure value for money	Yes

Opinion

I issued an unqualified opinion on the Council's financial statements. The Council prepared its accounts well against a challenging background of the transition to IFRS accounting.

Value for money

I issued an unqualified VFM Conclusion. It has been another challenging year for local authorities, seeking to respond to the continuing financial pressures while preserving essential services.

Audit Closure

I closed my audit of your 2010/11 accounts on 28 September 2011.

During my audit, I found the Council:

- has a track record of strong financial management, with effective budget setting and budgetary control arrangements;
- holds healthy reserves which should allow it to meet unexpected demands on resources and to help deliver corporate priorities;
- has a strong vision of joint working to achieve efficiencies and protect front-line services; and
- continues to seek opportunities for improving value for money, including by joint procurement.

Going forward

The Council should continue:

- addressing issues arising from internal reorganisation;
- delivering partnership working, service reviews and cash savings; and
- local performance reporting that demonstrates to electors that Members have kept sovereignty for local actions and outcomes.

Current and future challenges

The Council made significant cuts in its 2010/11 budgets in response to reduced funding from government. Even so spending remained within budgets and the Council was able keep its reserves at a healthy level.

The government is continuing its policy of reducing financial support for local government and the impact of this will continue to affect the Council. Savings of £2.9m need to be found over the next three years. The Council is identifying these reductions, but balancing its budget over this period will be a significant challenge. The continuing economic downturn is likely to mean greater pressure, particularly on income streams.

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

- delivering the cash savings set out in the Council's financial strategy;
- being alert to any emerging risks while extending shared management and systems with East Hampshire District Council;
- completing the relocation of public services within the new plaza and ensuring it improves services for users; and
- supporting the business community during the early stages of the Solent local enterprise partnership (LEP).

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

- using local performance reporting to show that Members have kept sovereignty for local actions and that partnerships with East Hampshire and others are delivering better outcomes for Havant;
- 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 proposals for local groups to take over community facilities and services; and
- promoting local economic growth, including by opportunities created by the Local Government resource review.

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

In my opinion, your financial statements:

- gave a true and fair view of your financial position and spending and income for 2010/11; and
- had been prepared properly, following the relevant accounting rules.

The challenge of moving to financial statements based on International Financial Reporting Standards (IFRS) was a significant one. The extra work involved meant extra pressures on finance staff during a period when the impact of the government financial settlement was first being considered and responded to.

Despite this pressure, the accounts that I audited were complete and of a good standard.

Some adjustments were made to your accounts because of my audit and I reported these to your standards committee on 21 September. I confirmed to the committee that, in my view, errors of the type I identified were not unusual within the general accounts production process and should not create a lasting concern for those charged with governance.

Internal Control

I reported the outcomes of my assessment of your internal controls twice during the year, in June and September. I am satisfied that your Annual Governance Statement is consistent with my understanding of your controls and procedures.

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 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 proper arrangements to secure, economy, efficiency and effectiveness in its use of resources.

How I formed my VFM 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:

- 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; and
- 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 then assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission:

- the organisation has proper arrangements in place for securing financial resilience; and,
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</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>The Council has a track record of strong financial management. Its budget setting and budgetary control arrangements are effective and its reserves are at a healthy level to help deliver corporate priorities and meet unexpected demands.</p> <p>The Council's response to the decrease in government funding relies heavily on its programme of partnership working with East Hampshire District Council. Cuts have been made to management posts rather than to front-line services.</p> <p>To ensure it keeps its current financial resilience, the Council will need to be alert to any emerging risks from changes to key personnel and reduced capacity in key areas of financial control. Alongside this, there are growing pressures on income and increased demand for services that will continue to need management.</p> <p>The Council's financial strategy calculates that savings of £2.9m are required over the next three years. Proposals for the next year are being discussed by officers and members and a draft budget is expected in December. Savings proposals within this and any significant assumptions within estimates should form a core part of budget scrutiny conducted by Members.</p> <p>Despite these significant challenges, the Council has suitable arrangements in place to achieve financial resilience over the foreseeable future. Delivering this will not be easy however and preserving financial resilience will continue to be a key challenge for the Council.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is setting priorities within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council entered a partnership working arrangement with East Hampshire District Council in 2010. Both Councils recognise that collaboration can create strength and resilience to face the challenging outlook for public services. Sharing also enables councils to take the best from each partner and to improve outcomes for both communities.</p> <p>Communities and localism are also at the heart of the DCLG's activities and priorities. During 2011 freedoms were provided to review performance information collected and monitored. Councils can now amend or drop local area agreements, associated targets and many national performance indicators. The Council has recognised this is an opportunity to reduce bureaucracy and improve performance management.</p>

Criterion

Key messages

Local indicators are now set by the Council's service managers measuring what is important to the Council and its Community. These are regularly reported and reviewed by the Council's management team and Councillors as part of a balanced suite of information that includes corporate and service performance, risk management and finances.

Using local performance reporting in this manner helps show to electors that Members have kept sovereignty for local actions and outcomes while working jointly with East Hampshire and that they are holding providers to account for their constituents.

Following the second stage of partnership working, joint service managers are now in post. A key task for these officers over the next year is to identify ways of working more efficiently as a joint team and whether changes to people, processes and systems need to be made.

The quality and overall conduct of these reviews will contribute to the success of the partnership with East Hampshire. They have the potential to deliver efficiencies and better services as well as more interesting, varied jobs for staff but could also reduce the identity and quality of services provided to the community and weaken financial and internal control. Proper oversight, scrutiny and challenge of this process is essential.

The Council continues to work with other partners where it will achieve more for less. It is bringing together various public services into the redeveloped civic centre, and has entered into a wider partnership with Capita that includes customer services. It is also part of the Solent local enterprise zone, which aims to increase economic investment across the Solent area.

In my view your arrangements to challenge how you set priorities and deliver effective, economic and efficient services continue to be sound.

Closing remarks

I have not issued a public interest report or made a statutory recommendation following my work at Havant Borough Council for 2010/11.

I have discussed and agreed this letter with the Chief Executive and other officers. I will present this letter at the standards committee on 13 December 2011. I will provide copies to all Members.

More detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Council during the year.

Report	Date issued
2010/11 Initial fee letter	April 2010
2010/11 Audit – changes you can expect to see	January 2011
Audit Plan Update	June 2011
Annual Governance Report	September 2011
Annual Audit Letter	November 2011

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

Mark Catlow
Appointed Auditor
November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Scale fee	109,500	113,250	(4000)
Non-audit work	-	-	-
Total	109,500	113,250	(4000)

The Audit Commission has paid a separate rebate to you of part of the scale fee set out above. This adjustment does not form part of my audit fee.

The fees associated with grants certification work are not shown above and will be reported to you separately once finalised.

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, including how it has monitored the effectiveness of its governance arrangements in the year, and on 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.

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.

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.

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