

Annual Audit Letter

Havant Borough Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two parts:

- **the audit of your financial statements (pages 3 and 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 7).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I gave an unqualified opinion on your accounts on 29 September 2010.

Value for money

2 I issued an unqualified value for money conclusion stating that you had satisfactory arrangements to secure economy, efficiency and effectiveness in the use of your resources.

Audit fees

3 A breakdown of the audit fees for the work undertaken in 2009/10 is included in Appendix 1 to this report. The extra fee of £5,200 relates to my work reviewing your Capita framework contract and this is summarised in paragraph 30 of this report.

Current and future challenges

4 The economic downturn is having a significant impact on public finances and the bodies that manage them. The recent Comprehensive Spending Review proposes an average of 28 per cent reduction in central government support for local government over the next four years. Within this framework the Council will have some difficult decisions to take in setting its 2011/12 budget. My comments in this letter are intended to help you meet this challenge.

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.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 29 September 2010, within the statutory target date.

Overall conclusion from the audit

5 I issued an unqualified opinion on your accounts on 29 September 2010. Your financial statements were of a good quality and, as in prior years, my audit identified few errors. All these were adjusted and they had no effect on balances relevant to Council Tax levels or on your General Fund reserves.

Internal control

6 I did not identify any significant weaknesses in your internal control arrangements.

International Financial Reporting Standards

7 International Financial Reporting Standards (IFRS) will apply to local government accounting for 2010/11.

8 The Audit Commission has recently commented nationally on local government's progress in its report 'Progress on the transition to IFRS', published in October 2010. This report stressed that current priorities for councils are to:

- restate 2009/10 accounts on an IFRS basis by December 2010;
- improve information and systems to analyse asset valuations; and
- identify and review lease arrangements.

9 I have so far undertaken two assessments of your progress against this agenda. On both occasions, in common with many others, I concluded that more work was needed as you were behind your own internal timetable to meet this challenge. Officers have accepted this and the Standards Committee may wish to oversee progress in this area over the next six months.

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.

2009/10 use of resources assessments

10 At the end of May 2010, the Audit Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would stop with immediate effect and the Audit Commission would no longer issue scores for its use of resources assessments.

11 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

12 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

13 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each audited body.

14 This is a summary of my findings:

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Workforce management	Yes

15 My overall VFM conclusion was that you have satisfactory arrangements to secure economy, efficiency and effectiveness in the use of your resources.

16 Your budget setting process remains strong and, in my view, continues to deliver a medium term approach to delivering services and achieving savings. This year, you conducted several focus groups that involved stakeholders in financial planning. This improves transparency about financial planning and will help the debate over the difficult choices that you face.

17 I would encourage you to seek all opportunities to engage in this way with your key stakeholders as this can only lead to a better understanding of how you have carried out your duties over the stewardship of public funds. On this point I was pleased to note that, for 2008/09, you produced a first annual report that provided a helpful summary of this to all interested parties.

18 Following my assessment of your workforce planning arrangements in 2009, I considered if you use your natural resources effectively. You are at the start of this journey, your understanding and measurement of energy is improving but is not yet complete. Although energy use is reducing, more work is needed to show by how much. Plans to reduce CO2 production are in place, but outcomes are not yet clear.

Approach to local value for money work from 2010/11

19 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible choices for a new approach to local value for money audit work. The Audit Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

20 My work will be based on a reduced number of reporting criteria, specified by the Audit Commission, concentrating on:

- securing financial resilience; and
- setting priorities within tighter budgets.

21 I will decide a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement about my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

The public sector economic outlook

22 Given the current cuts to government spending and the resulting decreases in income streams from the economic downturn, local government bodies need to respond now to reduce the impact on front-line services.

23 Your Medium Term Financial Strategy (MTFS) forecasts that £2.247 million savings are needed to balance your budget over the next three years. This figure was published prior to the Comprehensive Spending Review, which imposed cuts of 28 per cent in local government funding over the period to 2014/15.

24 Your ability to continue to deliver front-line services while achieving these cost reductions depends heavily on the partnership working agenda outlined below, your ability to alter service specifications within long-term contracts, and the public service village project. These areas will be a focus of my work in 2010/11.

Partnership working

25 The post of Chief Executive has been shared between Havant Borough Council and East Hampshire District Council since October 2009. A joint management structure for both organisations is now in place.

26 You are also reviewing the potential to enter shared services arrangements with some other districts and the county council for both service delivery and back office roles. These shared arrangements offer notable potential benefits but also risks and I was encouraged to see that you have proper arrangements to assess and manage them. A risk register has been developed and is reviewed and updated, and Councillors are actively engaged in this through a joint Member board.

27 This work will require careful management and commitment by staff and Councillors to ensure it stays on track.

28 Recognising that I have a role to play in this agenda, I have arranged locally for the same audit team and audit manager to conduct the audit of both councils from 2010/11. I hope this will enable me to properly reflect local and joint risks and to realise any efficiencies available in the audit that may develop as the project continues.

Future developments

29 With the construction of the public service village and integrated working with East Hampshire District Council and Hampshire County Council, you are well positioned to provide good services to the Borough of Havant. Moving forward, you will need to manage this transition carefully. This includes considering the implications of entering such long-term contracts, the flexibility of service specifications and an understanding of the changes and challenges currently posed by the economic climate.

Closing remarks

30 During the year I considered questions raised with me about your contract with CAPITA. I am satisfied no more action is needed now and my conclusions have been communicated to the elector and the Head of Resources. As no provision was made for this work in my risk assessment, I arranged for an extra fee to be raised in relation to this work. This is shown in Appendix 1.

31 I have discussed and agreed this letter with the Head of Resources. I will present this letter at the Standards Committee on 14 December 2010 and will provide copies to all Members.

32 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
2009/10 Opinion Update	June 2010
Annual Governance Report	September 2010
Grants Report	November 2010
Report to Management 2009/10	November 2010

33 Havant Borough 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 2010

Appendix 1 Audit fees

	Actual	Planned	Variance
Financial statements and annual governance statement	£72,200	£67,000	£5,200
Value for money	£37,000	£37,000	0
Whole of Government Accounts	£3,400	£3,400	0
Total audit fees	£112,600	£107,400	£5,200
Non-audit work	£0	£0	£0
Total	£112,600	£107,400	£5,200

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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

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