

# Annual Audit Letter

Eastleigh Borough Council

Audit 2010/11



# Contents

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<b>Key messages</b>	<b>3</b>
Financial Statements	3
Value for money	3
Audit Closure	3
<b>Current and future challenges</b>	<b>4</b>
<b>Financial statements and annual governance statement</b>	<b>5</b>
Overall conclusion from the audit	5
Internal Control	5
Objection to the 2009/10 Accounts	6
Objection to the 2010/11 Accounts	6
<b>Value for money</b>	<b>7</b>
How I formed my VFM conclusion	7
<b>Closing remarks</b>	<b>10</b>
<b>Appendix 1 - Fees</b>	<b>11</b>
<b>Appendix 2 - Glossary</b>	<b>12</b>

# 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

## Financial Statements

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

The Council prepared its accounts against a challenging background of the transition to IFRS accounting. A number of amendments were made to the accounts during the audit but none of these significantly affected the Council's financial position. There is scope for improvement in the Council's accounts preparation process.

## 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.

My work in support of this conclusion found the Council:

- has a track record of strong financial management, with effective budget setting and budgetary control arrangements;
- delivered a balanced budget in 2010/11;
- approved a balanced budget for 2011/12; and
- continues to seek further opportunities for improving value for money in its services

The Council will need to carefully manage the risks and opportunities presented by its extensive capital programme and associated borrowing.

## Audit Closure

I have received an objection to the 2010/11 accounts under the Audit Commission Act 1998. I will not be able to certify conclusion of the 2010/11 audit until I have determined this objection.

# Current and future challenges

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The Council made significant cuts to its 2010/11 budgets in response to reduced funding from government. The Council was able to keep its spending within the reduced budgets.

The government is continuing its policy of cutting public spending and the impact of this will continue to dominate the Council's agenda. Having balanced its 2011/12 budget, the Council needs to find another £3 million of savings over the next three years to keep its finances in balance. The continuing economic downturn is likely to mean greater pressure, particularly on income streams.

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

- delivering the cash savings set out in the Council's financial strategy;
- keeping the level and standard of services with reduced resources;
- managing the risks associated with the Council's substantial capital programme particularly those related to interest rates and rental income; and
- using new freedoms to amend or drop national targets and develop fewer local, outcome focused, ones.

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

- changes proposed in the government's Welfare Reform Bill, including new arrangements for housing and council tax benefits;
- changes proposed in the government's Localism Bill, including new arrangements for funding social housing and for enabling local groups to take over community facilities and services; and
- promoting local economic growth, including 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

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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.

The draft statements presented for audit contained a number of significant errors, all of which were corrected in the accounts that were approved by the Audit and Risk Management Committee on 27 September 2011. The adjustments did not materially affect the general fund balance. Our detailed findings and recommendations were reported to the Committee. There is scope for improving the accounts preparation process. Key areas for improvement include:

- the classification and disclosure of fixed assets;
- the content of some supporting notes; and
- more robust quality checks on the draft financial statements.

## Internal Control

I reported the outcomes of my assessment of your internal controls twice during the year, in June and September. I concluded overall that the Council maintains a satisfactory level of internal control. However I identified a number of opportunities for further strengthening of controls. These included:

- better authorisation procedures for processing accounting journals; and
- improved administration processes in treasury management.

I have agreed recommendations in these areas with the finance team.

I am satisfied that your Annual Governance Statement is consistent with my understanding of your controls and procedures.

### **Objection to the 2009/10 Accounts**

I previously received an objection from a local government objector to an item in the 2009/10 accounts. This related to £1.059 million expenditure on preparatory costs for the Rosebowl Development. I considered the objection and determined that the expenditure was lawfully incurred and there were no matters requiring me to exercise my statutory reporting powers. I have therefore now formally concluded the audit of the 2009/10 accounts.

### **Objection to the 2010/11 Accounts**

I have received an objection from a local government objector to an item in the 2010/11 accounts. This relates to £187,000 expenditure on preparatory costs for the Rosebowl Development. I have not yet therefore certified conclusion of the audit of the 2010/11 accounts.

# Value for money

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**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 the following.

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

I 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 overleaf.

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## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p>	<p>The Council has a track record of strong financial management. Its budget setting and budgetary control arrangements are effective.</p> <p>The Council maintains its practice of;</p> <ul style="list-style-type: none"><li>■ only building savings into future base budgets once delivered in prior years; and</li><li>■ not including one-off or short term extra resources into continuing base budgets.</li></ul> <p>The Council responded quickly and decisively to the decrease in government funding, undertaking ongoing scenario planning exercises and a review of Council priorities in July 2010 ahead of the LG settlement.</p> <p>The Council has a very significant capital programme exceeding £90 million over the next few years. This largely includes property purchases and development and is mainly funded from borrowing. The programme reflects the Council's wider economic development and regeneration objectives. The Council has reported that this level of borrowing meets the requirements of CIPFA's Prudential Borrowing Code. Rental and lease income from the properties will be used to meet borrowing costs and to provide financial support for the Council's wider activities. Capital expenditure and borrowing on this scale inevitable present opportunities and risks. The Council continues to take considerable professional advice to minimise risks. Key areas of focus for the Council in my view are to:</p> <ul style="list-style-type: none"><li>■ keep its borrowing and treasury management arrangements under review and in particular the split between short and long term borrowing;</li><li>■ take a prudent view on the future movement of interest rates; and</li><li>■ recognise the risks to future rental and lease income at a time of increasing economic uncertainty.</li></ul>

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## Criterion

### **2. Securing economy efficiency and effectiveness**

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

Focus for 2010/11:

The organisation is setting priorities within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key messages

Over the last year the Council has been successful in identifying and achieving required savings. Its general and earmarked reserves remain at a satisfactory level. The Council's Medium Term Budget Strategy highlights the Council will need to deliver savings of £3 million over the next three years to deliver a balanced budget. Over the short term, there are increasing pressures and risks to the delivery of a low or nil council tax increase for 2012/13. Alongside this, there are growing pressures on income and increased demand for services that will continue to need management.

Decentralisation and localism are at the heart of the DCLG's activities and priorities. Following the increased freedoms from external Inspection and Comprehensive Area Assessment (CAA) the Council has made progress in reviewing its priorities as part of preparing its Medium Term Budget Strategy.

During 2011 more freedom was also provided to review performance information collected and monitored by the Council. DCLG gave councils the freedom to amend or drop Local Area Agreements, associated targets and many national performance indicators. The challenge over the next 12 months is to develop fewer, outcome focused, strategic targets measuring what is important to the Council, delivering its priorities and to its Community.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Corporate Director (CFO). I will present this letter at the Audit and Risk Management Committee in November 2011 and will provide copies to all Members.

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

Report	Date issued
2010-11 Initial fee letter	April 2010
Audit Progress Report	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.

Patrick Jarvis

District Auditor

November 2011

# Appendix 1 - Fees

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	Actual	Proposed	Variance
Scale fee	110,000	110,000	-
Non-audit work	-	-	-
<b>Total</b>	<b>110,000</b>	<b>110,000</b>	<b>-</b>

The above figures exclude the cost of any additional work on the objection to the 2010/11 accounts.

# Appendix 2 - Glossary

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## **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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