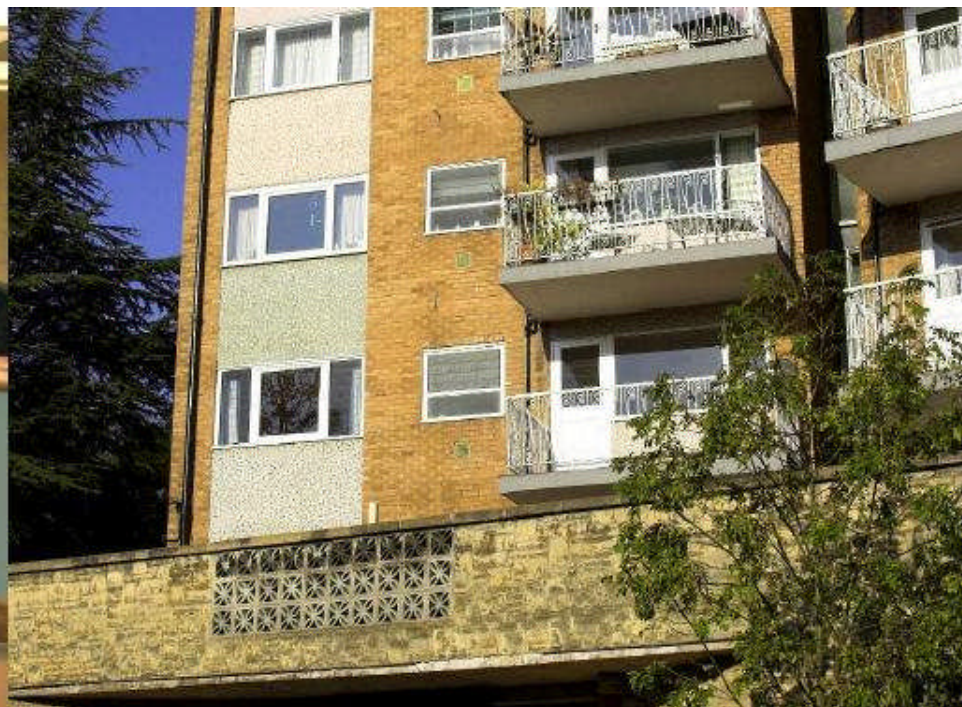
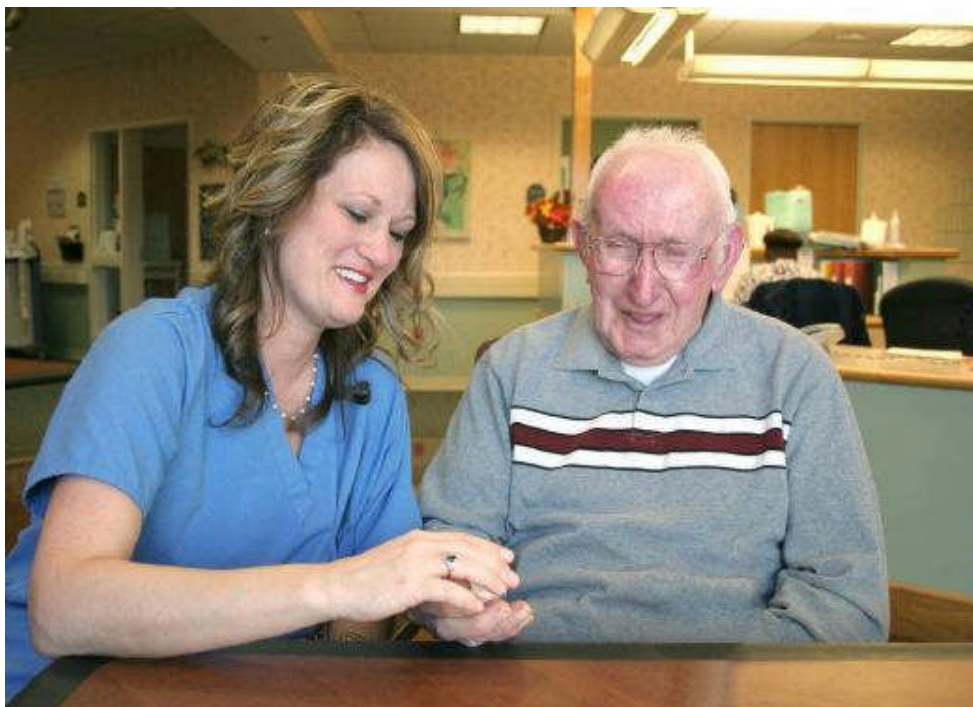


Eastleigh Borough Council 2008/09 Annual Audit Letter



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December 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit.

Yours faithfully

PricewaterhouseCoopers LLP
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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at Eastleigh Borough Council that is accessible for members and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources
- Report to those charged with Governance (ISA (UK&I) 260)
- Interim audit report
- Use of Resources – Draft Assessment Results

The matters reported here are those that we consider are most significant for the Authority and a summary of the key recommendations that we have made can be found in Appendix A.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Authority's Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2008/09 audit work has been undertaken in accordance with the Audit Plan that we issued on 30/05/09. This was the final year of our audit appointment and the Audit Commission have already started work on the 2009/10 audit. We would like to thank officers and Members for the co-operation we have received over the last five years.

Audit findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 30th September 2009.

We identified the following key issues from our audit of accounts:

- There were no significant unadjusted or adjusted errors and we noted a further improvement in the quality of the accounts and supporting working papers;
- Accounting practices have been correctly applied and are in line with the Statement of Recommended Practice;
- The Council underspent against budget by £333,000 and has a strong financial standing. However, it will face financial pressures as a result of the economic situation including likely constraints on local government funding and will need to continue monitoring the impact on investment income, pension costs etc; and
- There were a number of accounting and data quality recommendations that have been detailed in the summary of recommendations below.

There are four issues we noted as high priority:

1. Improvements are required in calculating the bad debt provision,

although the provision is materially correct;

2. There is an unsubstantiated balance of £25,000 on the cash flow statement, a considerable improvement on last year's position but further work is required to ensure all balances can be supported;
3. The building control account was in deficit over 3 years but we have noted a surplus was made last year, suggesting the revised arrangements (working with Southampton City Council) are working;
4. We found further errors when carrying out our testing on performance indicators. The Council is responding positively to our previously raised concerns over data quality and is implementing review arrangements to improve the accuracy of its data. In our view, good quality data is essential to good performance management and it is important that next year the Council shows that the revised arrangements have made a positive impact.

In addition, our controls work identified that your business continuity plans need to be tested on a regular basis.

Use of Resources

The Audit Commission requires us to assess the overall arrangements that the Authority has in place in the following three areas:

- Managing finances
- Governing the business.
- Managing Resources.

We evaluated the arrangements against criteria set by the Audit Commission in underlying Key Lines of Enquiry (KLoE) and reached a score for each based on the following:

- 1 Failure to meet minimum requirements – inadequate performance;
- 2 Meets only minimum requirements – performs adequately
- 3 Exceeds minimum requirements – performs well; or
- 4 Significantly exceeds requirements – performs excellently.

The scores for these KLoEs then determines the overall score for each area, using rules issued by the Commission. The Commission in turn then determines an overall score for the Authority.

Overall the Council scored a 2 on its Use of Resources which means that minimum requirements were met. The Audit Commission has also recently published the Council's organisational assessment and it has been deemed to be performing well. In terms of Use of Resources, the Council's score is comparable to the other districts in Hampshire (8 scored a 2 and 3 scored a 3) but in general we noted that the Council had difficulty providing evidence which demonstrated its processes had resulted in positive outcomes. An action plan has been put together by officers to address this.

The scores in individual areas were as follows:

Managing Finances

Key Line of Enquiry		Score
1.1	The Authority plans its finances effectively to deliver its strategic priorities and to secure sound financial health	3
1.2	The Authority has a sound understanding of its costs and performance and achieves efficiencies in its activities	2
1.3	The Authority's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	3

The Council is effective in managing its finances, it has good processes in place and outputs and outcomes have been achieved. The financial plan is linked to the Council's strategic priorities and the results of consultation with stakeholders have been taken into account. Efficiency savings have been achieved and the Council has above average performance compared to other authorities. Financial reporting processes and working papers are of a good standard and are produced on a timely basis. Further improvements are required to strengthen the Council's approach to option appraisal and whole life costing to demonstrate that costs are being analysed consistently and effectively by management and members.

Governing the business

We have scored the KLoEs for governing the business as:

Key Line of Enquiry		Score
2.1	The Authority commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.	2
2.2	The Authority produces relevant and reliable data and information to support decision making and manage performance	2
2.3	The Authority promotes and demonstrates the principles and values of good governance	2
2.4	The Authority manages its risks and maintains a sound system of	2

internal control	
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The Council arrangements for governing its business are consistent with established practice and guidance, meet statutory requirements and operate effectively, although outcomes and outputs are not clearly demonstrated. Further improvements are required to enhance the future procurement strategy and activities to demonstrate that improved outcomes are being achieved for the local community through reviews of spend analysis, involvement of partners, IT changes and process improvements. Also data quality arrangements require revising to demonstrate that information is accurate, reliable and is being used to its full capacity to improve outcomes for the local community. Further review of governance arrangements is required so that clear evidence exists to demonstrate that specific action taken by management/members has led to successful outcomes in line with the Council's core strategy and community plan. Updating fraud and corruption arrangements and further embedding of risk management is needed to clearly demonstrate that strategic and operational risks have been lowered as a result of steps taken by service units and partners.

Managing resources

We have scored the KLoEs for managing resources as:

Key Line of Enquiry		Score
3.1	The Authority makes effective use of natural resources.	N/A
3.2	The Authority manages its assets effectively to help deliver its strategic priorities and service needs.	N/A
3.3	The Authority plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	2

Note: KLoE 3.1 and 3.2 are not a specified KLoE(s) for 2008/09 for District Councils

The Council's arrangements for managing its people resources are consistent with established professional practices and guidance and are operating effectively. The People Strategy was being redeveloped in 2008/09, to be in place for 2009/10 to 2011/12. Further improvements are

required to ensure that the People Management Strategy clearly links to the Council's corporate priorities and service plans and that there is active monitoring of progress and achievements to further demonstrate the workforce are effective.

Conclusion on Use of Resources

We were also required to issue a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

We issued an unqualified conclusion on the Authority's arrangements for its Use of Resources on 30th September 2009.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Treasury Management

As part of our work on Use of Resources we carried out a programme of work on Treasury Management. This piece of work was mandated by the Audit Commission.

Review of treasury management arrangements showed that the policies are adequate and that staff involved are aware of relevant issues. There were no issues identified with investment holdings.

Matters affecting future accounting periods

Transition to International Financial Reporting Standards (IFRS)

CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009. The authority will need to have values for assets and transactions as they should be recognised under IFRS from this date.

The Authority will need to ensure that it has a good grasp of the changes to accounting requirements under the new Code, and that it has robust plans in place to enable collection and processing of the information needed to comply with the new Code.

In our experience the key features of a successful IFRS conversion project have proven to be:

- Completed impact analysis and comprehensive conversion plans;
- The commitment of key stakeholders in the organisation;
- Operational steering and technical groups;
- Cabinet/audit committee oversight;
- Regular progress reporting against the plan;

- The necessary project management resources; and
- Appropriate and timely training for all members and officers with IFRS involvement.

Capital Developments

The Council has an ambitious capital programme, including a large (£30m) scheme to redevelop the Rose Bowl. This is being finalized in 2009/10 and will therefore be reviewed by your new auditors. The Council will need to ensure it has the right skills and support to deliver these programmes.

Appendix A: Summary of recommendations

Recommendation	Management Response	Target Implementation Date
<p>Debtors (High Priority)</p> <p>a) The method for calculating the Council tax bad debt provision should be reviewed to ensure that it adequately covers increases in Council Tax charges and is consistent with the amount of debt written off in recent years.</p> <p>Most Councils use a percentage based on age of debt and past repayment performance.</p> <p>b) Reconciliations should be undertaken to ensure that the bad debt provision balance within the accounts fully agrees with the Council's working paper so that the provision within the account can be appropriately justified.</p> <p>c) The unreconciled balance on the debtor control account should be investigated and appropriate action taken to remove the difference.</p>	<p>a) Agreed By Whom: Head of Revenues & Benefits & Head of Financial Services</p> <p>b) Agreed. By Whom: Head of Financial Services</p> <p>c) Agreed. By Whom: Head of Financial Services</p>	<p>As part of 2009/10 close down of accounts.</p>
<p>Fixed Assets (Medium priority)</p> <p>a) As soon as fixed asset purchases are made the funding details should be established in order that there are no differences between the fixed asset balance shown within the accounts and the fixed asset register.</p> <p>b) The Finance Department should reconcile the Customer Service and ICT Business Unit asset listing to the IT records within the fixed asset register on a quarterly basis to ensure all assets are recorded within the accounts.</p>	<p>a) Agreed By Whom: Head of Financial Services</p> <p>b) Agreed. By Whom: Head of Customer Services & ICT and Head of</p>	<p>As part of 2009/10 close down of accounts.</p>

Recommendation	Management Response	Target Implementation Date
<p>Also the Finance Department should liaise with the Customer Service and ICT Business Unit to ensure that details recorded on the IT asset listing are accurate and contain appropriate information.</p>	<p>Financial Services</p>	
<p>Creditors (Low Priority)</p> <p>a) Business Units should be reminded that adequate back up documentation should be maintained for all creditor transactions.</p> <p>b) The Finance Department should review arrangements to ensure that VAT is excluded from the creditors' balance at year end.</p>	<p>a) Agreed By Whom: Head of Financial Services</p> <p>b) Agreed By Whom: Head of Financial Services</p>	<p>As part of 2009/10 close down of accounts.</p>
<p>Cash Flow Statement (High Priority)</p> <p>The Council should continue to improve the cash flow statement reconciliation process to ensure that every line in the statement can be fully supported directly to a transaction listing. This is as a result of one balance of £25,000 on the cash flow statement note relating to the non-cash movement in short term investments that could not be fully substantiated by supporting documentation.</p>	<p>Agreed By Whom: Head of Financial Services</p>	<p>Immediate</p>
<p>Building Control (High Priority)</p> <p>Over the past few years we have reported that under legal requirements, the Council's building control is required to break even over a rolling three year period, for work where a charge is made.</p> <p>In 2008/09, the Council chargeable building control account was in a surplus position of £15,000, in 2007/08 the Council broke even and in 2006/07 there was a deficit of £41,000. Therefore over the last three years, the building control chargeable work account shows a deficit of £26,000.</p> <p>The Council should continue to review its arrangements closely to ensure that they are complying with building control legal requirements for chargeable works.</p>	<p>Agreed</p> <p>By Whom: Corporate Director (CFO) & Partnership Board</p>	<p>Ongoing</p>

Recommendation	Management Response	Target Implementation Date
<p>Data Quality (High Priority)</p> <p>a) As part of our data quality testing, we noted following issues in relation to Performance Indicator: QBV199a - % of areas with unacceptable levels of litter/detritus. Officers responsible for the performance indicator QBV199a should ensure: litter/detritus scores are provided for all 300 sites; evidence is retained to confirm that wards are chosen in accordance with agreed timetable or the reason for an alternative ward being selected is recorded; reconciliation checks are undertaken to ensure the actual survey scores are used in performance indicator calculation and that all staff undertaking surveys are aware of the guidance requirements.</p> <p>b) In the other two performance indicators tested: NI182 – the satisfaction of business with local authority regulation services & BV183a the average length of stay in Bed & Breakfast (weeks), we noted some minor calculation errors and a lack of a clear audit trail, although these did not impact on the final data quality figures, best practice suggests that independent reviews of accuracy of figures is undertaken. As a result it was recommended that spot checks on performance indicators should be undertaken by independent officers to ensure the accuracy of data.</p>	<p>a) Agreed. By Whom: Management Team & Chief Executive's Unit</p> <p>b) Agreed. By Whom: Management Team & Chief Executive's Unit</p>	<p>Ongoing</p>
<p>Use of Resources (High Priority)</p> <p>The Council should implement its action plan to address the recommendations in our Use of Resources report.</p>	<p>Agreed</p>	<p>For 2009/10 assessment</p>

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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