

Annual Audit Letter

Fareham Borough Council

Audit 2008/09

December 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 our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion and financial statements

- 1 I gave an unqualified opinion on the Council's accounts on 30 September 2009.
- 2 The financial statements provided for audit were generally satisfactory. The standard of the working papers provided was good with the information being provided electronically. A number of matters arose during the audit of the financial statements. However none of these was significant enough to affect a reader's understanding of the accounts. The errors that were not adjusted were immaterial to the financial statements.

Value for money

- 3 I issued an unqualified value for money conclusion on 30 September 2009 stating that in all significant respects, Fareham Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
- 4 In my use of resources assessment, I concluded that the Council scored 3 out of a maximum of 4. this means that the Council is performing well and that I have no significant concerns over the arrangements put in place by the Council and that those arrangements meet established professional practice and guidance and are operating effectively.

Actions

- 5 Key actions for the Council include:
 - continuing to develop the capacity of the finance team to cope with future challenges including implementation of International Financial Reporting Standards;
 - ensuring there are robust plans in place to bridge the gap identified in the Council's medium term financial strategy; and
 - continuing to develop and update the Council's Workforce Planning Strategy.

Independence

- 6 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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.

Significant issues arising from the audit

- 7 I gave an unqualified opinion on the Council's financial statements on 30 September 2009. In carrying out the audit I focused on a number of risk areas. These included the potential need for group accounts arising from the Council being a constituent member of Portchester Crematorium Joint Committee, the requirement for improvement in fixed asset accounting and accounting arrangements for accrued interest on investments given recent cuts in interest rates.
- 8 I was pleased to note that the Council had generally satisfactory arrangements in these areas. Nevertheless a number of issues arose at the audit. The majority of these were simply matters of presentation and were not significant enough to affect a reader's understanding of the accounts.
- 9 Where appropriate the Council made amendments to its accounts to address issues arising from the audit. However, there was one issue where an adjustment could not be made to the accounts. This related to the cashflow statement which contained a balancing item. This item was not material and in my view did not distort the understanding of the financial statements. All matters arising from the audit of the financial statements were reported in detail to the Audit Committee in September 2009 in my Annual Governance Report.

Material weaknesses in internal control

- 10 Our work identified one weakness in control other than those already highlighted by Internal Audit. We identified that some journals were being processed prior to receiving authorisation, a practice which conflicts with the Council's financial regulations. However we understand that there are compensating controls in place such as the Chief Financial Officer reviewing the journal listing and investigating large journals prior to processing.

Accounting practice and financial reporting

- 11 I considered the qualitative aspects of your financial reporting. I recommended that the Council improve its arrangements in respect of the valuation of fixed assets and capital accounting. In particular the Council should ensure that it can support the valuation of council dwellings within the financial statements and that the accounting requirements of the implementation of International Financial Reporting Standards can be met through the Council's fixed asset register.
- 12 Overall I am pleased to report that the quality of the accounts preparation and financial reporting was satisfactory. In order to sustain this going forward the Council is seeking to recruit to a key post in the finance team to deal with financial reporting. Clearly a key task for the Council will be to sustain this going forward, particularly at a time of considerable change in local authority reporting requirements including the introduction of International Financial Reporting Standards.

Value for money and use of resources

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

I also assessed 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

- 13 The new UoR assessment framework is more demanding than the previous assessment. It is broader in scope and embraces wider resource issues such as people and workforce planning, and the use of natural resources. It also places more emphasis on considering outcomes for local people.
- 14 In forming my scored use of resources judgements, I have used the methodology set out in the Audit Commission's 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 of performance.
- 15 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.
- 16 The Council's use of resources theme scores are shown in Table 1 below.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
KLOE 1.1 - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	3
KLOE 1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	3
KLOE 1.3 - Is the organisations financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	2
Governing the business	3
KLOE 2.1 - Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	3

Use of resources theme	Scored judgement
KLOE 2.2 - Does the organisation produce relevant and reliable data and information to support decision-making and manage performance?	2
KLOE 2.3 - Does the organisation promote and demonstrate the principles and values of good governance?	3
KLOE 2.4 - Does the organisation manage its risks and maintain a sound system of internal control?	3
Managing resources	2
KLOE 3.1 - Is the organisation making effective use of natural resources?	Not applicable in 2008/09
KLOE 3.2 - Does the organisation manage assets effectively to help deliver its strategic priorities and service needs?	Not applicable in 2008/09
KLOE 3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	2

Overall conclusion

17 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources. The Council has put in place arrangements that are consistent with established professional practice and guidance, that meet statutory requirements and operate effectively. There are therefore no scores less than 2 in our assessment, and this has enabled me to provide an unqualified value for money conclusion to the Council.

Managing finances

- 18** The Council has strong integrated financial planning arrangements which ensure that spending meets corporate priorities and that the needs of the local community are taken into consideration. The monitoring arrangements ensure that variances are highlighted at an early stage and action plans designed. Budgets are focused not only on service expenditure but also on the most volatile areas so that the Council can easily identify problems as they occur.
- 19** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, particularly for those councils that invested in the Icelandic banks, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. In October 2008, the Council approved a three year financial strategy up to 2012/13. This plan shows a funding gap developing which would require Council Tax levels to be increased above current inflation levels. It is a Council priority that Council Tax increases should be no more than inflation. The Council believes that its value for money reviews and savings programmes will allow it to meet this objective and bridge the funding gap.

Value for money and use of resources

- 20 The Councils programme of value for money reviews ensures that costs are fully understood and plans are put in place to address high or unnecessary spend. Benchmarking is actively used and has resulted in cost savings being identified and realised. The Council uses its partnerships well and has accurate data on their financial situation to evaluate progress.
- 21 There is strong budget monitoring in place with financial ownership. The accounts produced are of a satisfactory quality with detailed working papers supporting them. These are supplied in electronic format on the first day of the audit. Summary accounts and an annual report are produced that are easily accessible and user friendly.

Governing the business

- 22 The Council has good risk management arrangements combined with an opportunities framework. There is both member and staff commitment to the counter fraud and corruption work at the Council with staff taking individual responsibility. The track record for successful benefits prosecutions is the highest in Hampshire. The Council has a good attitude to disaster recovery and has tested its plans to ensure continued operation. There is good focus on data quality at the Council with a detailed protocol in place.
- 23 In September 2009 we performed an audit of the Housing and Council Tax Benefits claim. Our audit identified errors in the calculation of claimants' self-employed income. This error could affect many different parts of the claim form and as a result we have qualified the claim form.
- 24 There is a programme of value for money reviews at the Council. This programme has been developed from assessing all service areas along set, risk-based criteria. Recent reviews include that of Ferneham Hall and Streetscene. These reviews are ensuring that costs are understood and efficiencies achieved thus ensuring better outcomes for local people.

Managing resources

- 25 The Council has good processes in place for managing its workforce. It knows what staffing it needs and is prepared to reorganise departments in order to achieve the best, most cost effective yet efficient service for the Council. A number of these reviews are ongoing and the results will be actioned in 2009/10. The workforce plan target of reducing FTE by 10 per cent by December 2010 is currently on-track.
- 26 The Council has used its performance information to second staff to understaffed areas instead of making redundancies during the economic crisis. The Council works well with the Unions and this can be seen by the redesign of waste management working practices and agreeing the pay settlement by the year end. The Council has reviewed its staff absence policy and has the lowest staff absence rate in Hampshire.
- 27 The Council has a medium term workforce planning strategy in place which details the staffing requirements of the Council. However, the number of staff or the skills mix required is not highlighted as this information is contained in supporting documents. A comprehensive workforce planning document is necessary to ensure the Council is planning adequately for the future and securing value for money through workforce planning.

VFM conclusion

- 28 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. For 2008/09 the Audit Commission specified the use of resources KLOE for the Council as set out in table 1 as the relevant criteria for the VFM conclusion at the Council.
- 29 Where the scored judgement is 2 or above, I conclude that the VFM criteria has been met. Therefore, as the Council scored 2 in all categories I was able to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Table 2 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	57,400	57,400	0
Value for money	31,200	31,200	0
Whole of Government Accounts	1,750	1,750	0
Total audit fees	90,350	90,350	0
Non-audit work	0	0	0
Total	90,350	90,350	0

- 30 The audit was completed in line with the planned fee that was agreed with the Council.

Closing remarks

- 31** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee and will provide copies to all committee members.
- 32** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3

Report	Date issued
Audit and Inspection Plan	June 2008
Supplementary Fees Letter	April 2009
Annual Governance Report	September 2009
Annual Audit Letter	December 2009

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- 33** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Patrick Jarvis
District Auditor
December 2009

The Audit Commission

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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