

AUDIT COMMITTEE

5 December 2011

ANNUAL AUDIT LETTER 2010/11

REPORT OF HEAD OF FINANCE

Contact Officer: Alexis Garlick Tel No: 01962 848224 agarlick@winchester.gov.uk

RECENT REFERENCES:

[AUD012](#): Annual Governance Report 2010/11

EXECUTIVE SUMMARY:

The Audit Commission have now presented the Annual Audit Letter for 2010/11, which is attached as an Appendix.

The presentation of this letter marks the conclusion of the external audit work in relation to the 2010/11 financial year. The letter has been discussed with officers and members will have an opportunity to discuss it with the Auditor at the meeting. The Annual Audit Letter has been made available to all members before 30 November 2011.

The audit fees to be charged are the same as the planned audit fees; £130,200 (compared with £136,200 for 2009/10).

Representatives of the Audit Commission will attend the meeting to provide any points of clarification.

RECOMMENDATION:

That the Audit Committee:

1. Considers the matters presented in the Annual Audit Letter and takes the opportunity to raise any points of clarification with the External Auditors who will be present at the meeting.
2. Confirm their acceptance of the Annual Audit Letter or otherwise notify the Auditor of any amendments they would like to be made prior to finalisation.

Annual Audit Letter

Winchester City 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.**

	My findings
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

Audit opinion and financial statements

I issued an unqualified opinion on the Council's financial statements on 30 September 2011.

The Council prepared its accounts against a background of the transition to IFRS accounting. Despite this added complexity, the financial statements and supporting working papers were well prepared.

Value for money

I issued an unqualified VFM Conclusion on 30 September 2011.

My work in support of the VFM conclusion showed the Council has sound financial management which enabled it to:

- deliver your 2010/11 budget; and

- approve a balanced three year budget to 2013/14 and plan to replenish your reserves in that period.

This has put the Council in a good position to meet the challenges of continuing financial pressures.

Future areas of focus include realising the benefits of the 'Environmental Services' and 'Housing Term Maintenance' contracts whilst delivering the planned improvements through the Council's restructuring and joint working with other councils. These are areas that the Council is already addressing.

Current and future challenges

The Council took robust action in response to reduced funding from government and the worsening economic outlook in 2010/11. Actual spending was £2.1 million less than the revised budget and the draw on reserves was correspondingly lower; i.e. £0.7 million.

Nevertheless the Council maintained its general fund balance at £2 million at 31 March 2011. It also has earmarked revenue reserves of £5.41 million (i.e. £5.34 million General Fund and Housing Revenue Account £0.07 million).

The government is continuing its policy of reducing public spending and the impact of this will continue to dominate the Council's agenda. The Council achieved its planned savings in 2010/11. Having based its 2011/12 budget on achieving savings of £1.7 million, the Council identified in July 2011 the need to find another £1.03 million savings over the next three years to keep its finances in balance and replenish its useable reserves. This funding gap may increase because of some of the uncertainties that are referred to below.

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

- focussing on delivery of the 2011/12 budget and medium term financial plans while minimising the impact on the level and standard of services and replenishing reserves, within reduced funding;
- realising the planned benefits from key developments including the 'Environmental Services' and 'Housing Term Maintenance' contracts;
- continuing the restructuring of the Council's workforce to develop new ways of working and joint working arrangements with other councils;
- financing its significant capital programme and identified future capital requirements; and
- responding to the government's proposals for Housing Finance Reform and implementing the consequential changes to the Housing Revenue Account and the Treasury Management procedures.

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
- meeting the challenge of change from the government's resource review including proposals to allow local authorities to keep their business rates.

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

I issued an audit report including an unqualified opinion on the Council's financial statements. Officers produced the financial statements in line with the required timetable, and the statements and supporting working papers were of a good standard.

Significant issues arising during the Audit

A number of changes were made to the accounts during the audit but only two of these impacted on the Council's useable reserves:

- an additional provision for a potential liability to pool housing capital receipts of £1.7 million (including interest);
- a reduction of £0.7 million in the provision in respect of claims by bus operators relating to 'concessionary fares'.

I reviewed the Council's Annual Governance Statement (AGS) and confirmed it complied with CIPFA guidance and the content was consistent with my knowledge of the Council.

Significant internal control issues arising during the audit

The Council has a sound system of internal control. For 2010/11 the Internal Audit Partnership Manager was able to provide the Council with 'substantial assurance' on the effectiveness of its control framework.

My work on your financial systems provided me with assurance the Council's internal controls are effective in ensuring the correct financial information feeds into the general ledger and the financial statements. However there are opportunities to improve internal control still further including:

- the implementation of a payroll control account in 2011/12; and
- a reduction in the number of staff with full access to the accounts payable system.

I will consider the progress made by the Council in these areas as part of my 2011/12 audit.

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 two criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is the Council has satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

How I formed my value for money 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 set out below my conclusions on each specified criterion.

Financial resilience

The Council has a track record of strong financial management. Its budget setting and budgetary control arrangements are effective and it has kept its General Fund and HRA balances at a prudent level making sure there are funds to help deliver corporate priorities and meet any unexpected financial demands. The Council has responded positively to the decrease in government funding in 2010/11 by challenging aspects of service delivery to ensure that the service provided and the level of performance achieved are appropriate.

This has enabled it to identify savings while seeking to preserve the level and standard of its services. The Council achieved its planned savings in 2010/11. Actual revenue spending was £2.1 million less than the revised budget in 2010/11 and therefore the draw on reserves was correspondingly lower; i.e. £0.7 million.

The Council identified savings totalling £1.7 million when setting the 2011/12 budget and agreed growth bids totalling £1.1 million. It has monitored progress against this budget on a monthly basis with reports on an exception basis being made to Leaders Board. Action has been taken during the year to address additional pressures amounting to £0.83 million that have been identified since the budget was approved in February 2011. This positive approach to responding to challenges will support the Council in achieving its 2011/12 budget.

The Council set a balanced budget for the three years to 2013/14 in February 2011, with an initial shortfall in funding of £769,000 forecast in 2014/15. This budget strategy included a significant requirement for savings during the period to 2014/15, rising from £1.7 million in 2011/12 cumulatively to £2.7 million by 2014/15. The Financial Strategy was updated in July 2011 to reflect changes made to compensate for new pressures and planned transfers to reserves. This revised Financial Strategy forecasts that there will be a funding shortfall of £59,000 in 2013/14 which rises to £970,000 in 2014/15. The achievement of this Financial Strategy in the current worsening economic outlook, while maintaining the standard of services, will be a challenge the Council.

The Council's capital programme for 2011/12 to 2014/15 is significant and totals £35.7 million. It will be funded from a range sources including Major Repairs Allowance (Reserve) £14.7 million, Borrowing £9.9 million, reserves and balances £3.2 million and other sources £7.9 million. The Council will need to ensure that its capital programme remains affordable, realistic and achievable in the current economic climate.

Securing economy efficiency and effectiveness

The Council's overall spending per head of population was below the average for similar district councils in 2009/10. None the less the Council has continued to challenge its use of resources in 2010/11 to ensure that they are directed toward the delivery of its priorities.

It has tested key services through external procurement exercises which are planned to deliver savings in future years. These have included the Housing 'Term' Maintenance contract. It has jointly procured an Environmental Services contract with a neighbouring Council. The Council has also reviewed the management contract for its leisure centres after taking external advice on the options open to it. This contract has been extended with the existing contractor until 2023, which enabled the private sector partner to invest in the improvement of the facilities at these centres.

Opportunities for shared service delivery with other councils have also continued to be identified by the Council. It now shares a number of functions with some other councils including Internal Audit, Information Technology, Hampshire Home Choice (choice based letting service) and Revenues and Benefits.

The Council has also restructured the organisation and management of its services. A team of three Assistant Directors has been created who work closely with the Corporate Management Team comprising the Chief Executive and Corporate Directors. While savings were forecast from this exercise it is not the only benefit that it was designed to achieve. The changes were also designed to influence how the Council works to assist it to achieve its aims; of improving performance through the delivery of services, listening to the Community, efficiency, respecting the environment and being an employer of choice.

Closing remarks

I have discussed and agreed this letter with the Chief Executive, Corporate Director (Governance) and Head of Finance. The letter will be sent to all members before 30 November 2011. I will also present this letter to the Audit Committee on 5 December 2011.

I set out below, for information, the reports I have issued to the Council during the year.

Report	Date issued
Initial fee plan	April 2010
Certification of grants and returns	February 2011
Audit Plan	June 2011
Annual Governance Report (including audit opinion and VFM conclusion)	September 2011

The Council has taken a positive and constructive approach to my 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

	Actual	Proposed
Audit fee	£128,200	£128,200
Whole of Government Accounts	£ 2,000	£ 2,000
Total	£130,200	£130,200

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. Thus includes how it has monitored the effectiveness of its governance arrangements in the year and 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.

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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