



ANNUAL AUDIT AND INSPECTION LETTER 2009/10

1. INTRODUCTION

- 1.1 Each year the Council receives an Annual Audit and Inspection Letter that summarises the work undertaken by the Audit Commission and the District Auditor for the preceding year.
- 1.2 The purpose of this report is to provide Members with an external overview of performance for the year and to raise any significant issues that require particular attention.

2. ANNUAL AUDIT AND INSPECTION LETTER FOR 2008/09

- # 2.1 A copy of the Audit and Inspection Letter for 2009/10 is attached as Appendix 1. A copy of the Letter will be published on both the Council and the Audit Commission's website

3. POLICY AND RESOURCES PORTFOLIO HOLDER COMMENTS

- 3.1 I am pleased that during these difficult and challenging times the external auditor is able to report to our residents, taxpayers and visitors that through our services we are providing good value for money and are safely looking after the public funds entrusted to us. I would like to thank all portfolio holders, members and officers for the work they have done in achieving this positive audit report.

4. CRIME AND DISORDER, ENVIRONMENTAL AND EQUALITY AND DIVERSITY IMPLICATIONS

- 4.1 There are no crime and disorder, environmental or equality and diversity implications arising directly from this report.

5. RECOMMENDATIONS

- 5.1 It is recommended that the Annual Audit Letter for 2009/10 be noted.

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Background Papers:

Annual Audit Letter

New Forest District 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 elements:

- **the audit of your financial statements (pages 4 to 6); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 7 to 10).**

Audit opinion and financial statements

1 On 30 September 2010 I issued my audit report including an unqualified opinion on the financial statements. The statements were well prepared. The Council is well placed to implement the International Financial Reporting Standards in 2010/11, but it needs to continue to devote resources to restating its 2009/10 statements before starting the 2010/11 closedown.

Value for money

2 On 30 September 2010, I issued an unqualified value for money conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Current and future challenges

3 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 26 per cent reduction in central government support for local government over the next four years.

4 The Council now needs to update its medium term financial strategy to reflect the grant reductions set out in the Spending Review and to identify the required savings. This is planned for January 2011.

5 Historically, the Council's financial planning has effectively supported delivery of its strategic priorities, and the Council has a proven track record of delivering high-quality services within budget. The Council has good service review arrangements, supported by a culture of close working between Members and officers. In the future these reviews may need to be more fundamental in their challenge of service delivery.

6 Going forward, the Council needs to make best use of its own resources, and work closely with partners to deliver efficient and effective services for local people.

Key actions

7 My audit over the last year shows the key actions for the Council are to:

- implement the International Financial Reporting Standards, ensuring sufficient resources are available to prepare the restated 2009/10 statements before 2010/11 closedown starts;
- improve controls over key financial reconciliations;
- update its medium term financial strategy and identify the scale of savings required to meet reductions in grant income following the Comprehensive Spending Review;
- continue to challenge the way it delivers services; and
- work with other councils in Hampshire and other local areas to consider whether further savings are available from shared services and shared management teams.

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 30 September 2010.

Overall conclusion from the audit

8 On 30 September 2010 I issued my audit report including an unqualified opinion on the financial statements. The statements were well prepared. The Council is well placed to implement the International Financial Reporting Standards in 2010/11, but it needs to continue to devote resources to restating its 2009/10 statements before starting the 2010/11 closedown.

Financial statements

9 In my opinion the Council's 2009/10 financial statements give a true and fair view of the Council's financial affairs and of its income and expenditure for 2009/10. I did not identify any material errors in the Council's financial statements, but I did identify a few lower value and less significant errors and disclosure issues. I reported the detailed matters arising from the audit to the September 2010 meeting of the joint meeting of the Final Accounts and Standards Committees.

Internal control

10 I reviewed the Council's Annual Governance Statement. I was satisfied that it reflected the Council's circumstances. My audit work did not identify any weaknesses in the design or operation of controls that might result in a material error in the Council's financial statements. However I did identify an opportunity to improve control over some of the Council's key financial reconciliations.

11 I also reviewed the Council's fixed asset system and found that different staff within the Council were using different modules of the asset management system to record assets. For example, the valuers were using a module of the system (to record low value assets) that finance staff did not have access to. The legal section was also using a different module of the asset management system.

12 Management has agreed an action plan to address these matters and I will follow up progress within the 2010/11 audit.

Internal Audit

13 Under the Accounts and Audit Regulations 2003, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
- maintaining an adequate and effective system of Internal Audit of its accounting records and of its system of internal control in accordance with the proper Internal Audit practices.

14 During 2009/10 I have continued to rely on Internal Audit's work as agreed in our Joint Working Protocol.

International Financial Reporting Standards

15 International Financial Reporting Standards (IFRS) will apply to local government accounting in 2010/11. This will bring many changes to all local government bodies including new disclosures and a reclassification of lease arrangements - a significant additional task for the Council as well as some complex accounting requirements.

16 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.

17 I completed my first assessment of the Council's progress in November 2009; it showed there was still much to be done. Since then officers have undertaken significant work, including:

- development of a detailed timetable that is being monitored by the Final Accounts Committee; and
- good communication with me to discuss progress and proposed approaches to emerging issues.

18 Further progress is required to produce the 2010/11 financial statements. The Council needs to focus on producing its 2009/10 restated statements and IFRS accounting policies.

19 Overall I am pleased the Council is well placed to implement the IFRSs. The Final Accounts Committee has a key role over the next six months in overseeing progress and ensuring that sufficient resources are available.

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 conclusion.

2009/10 use of resources assessments

20 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessments (CAA) would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

21 However, I am still required by the Code of Audit Practice to issue a value for money (VFM) 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.

22 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

23 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 type of audited body.

24 On 30 September 2010, I issued an unqualified VFM conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. 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

25 I have summarised my findings against each main area below.

Managing finances

26 The Council plans its finances effectively to deliver its strategic priorities and has a proven track record of delivering high quality services within budget. It has good service review arrangements supported by a culture of close working between Members and officers.

27 The Council has a good understanding of its performance through an effective and continuously improving performance management system. In 2009/10 it delivered efficiencies of £2.079 million. It continues to achieve good value for money in most of its key service areas. The Council is also on target to achieve the Government's cash efficiency savings targets of 3 per cent per annum between 2008/09 and 2010/11 - targets were achieved in the first two years.

28 Going forward, the service reviews may need to be more fundamental in their challenge to the way services are delivered. For example in environmental services such as waste collection and street cleansing the Council has good performance with high satisfaction and lower than average costs. Councillors clearly prioritise maintaining the current waste collection service and are firmly committed to weekly collections and opposed to wheeled bins. Recycling has been a strength of the Council but others have caught up and the Council's recycling rate is now below the average of other councils. The Council continues to run its own leisure services and spending is relatively high when compared with others. The Council is working hard to reduce the number of people in temporary accommodation and this continues to be a key area for improvement.

29 The Council was debt free at the end of 2009/10, and maintained its balances to budgeted levels (£2.036 million). It is continuing to drive service improvement and efficiency through its identification of savings and efficiencies. To date it has avoided the need for large service cuts. Medium term financial planning and the in-year budget is based on appropriate information and assumptions, but historically savings and efficiency plans have not been supported by evidence from detailed scenario planning.

30 The Council operates either jointly with or in support of a number of partnerships. The financial performances of those partnerships are reviewed regularly, but commensurate with the risk and nature of the partnership. Monthly monitoring reports are produced for the Executive Directors on the performance of the New Forest element of the larger partnerships.

31 The Council's financial information systems are accessible and provide for timely, tailored and reliable information. Members and officers receive regular finance and performance reports that are clear, relevant and concise - they support effective decision making.

Governing the business

32 The Council's arrangements for governing the business remain consistent with established practice and guidance, meet statutory requirements and are operating effectively.

33 The Council's arrangements to procure quality services and supplies tailored to local need remain robust and have improved. The Council has a clear vision of what local people need and want and this shapes its commissioning and procurement. A key improvement in 2009/10 was the Council's 'Gateway' process which is now established and improving procurement processes. The Council is improving its capacity to challenge and drive strategic procurement. The three-year programme of service reviews clearly aims to identify and drive service and value for money improvements.

34 The Council's arrangements to ensure good quality data continue to meet required standards, and it continues to ensure electronic data security is compliant with statutory requirements.

35 The Council redeveloped its risk management arrangements in February 2009. The revised risk management arrangements are integrated with business processes and the Council has demonstrated that risk management is an integral part of its revised procurement and project management processes.

36 The Council continues to demonstrate a strong counter fraud culture, confirmed by the outcomes of fraud investigations and the number of fraud referrals made by staff and members of the public.

Managing resources - use of natural resources

37 The Council has a good understanding of its use of natural resources - this has been a focus and priority for the Council for many years. It uses an innovative 'Green Audit' process that has put it in a strong position to quantify, target and reduce energy use. It breaks down energy consumption for each of its buildings and areas of operation. It has figures and trend data for CO₂, gas, electricity and water consumption back to 2001 which provides good baseline data for the required CO₂ reductions.

38 The Council has improved outcomes in many areas of its use of natural resources. It sets clear targets and its consumption of energy is reducing. It has reduced operational vehicle mileage by 6 per cent since 2007 (100,000 miles saved). The Council has an excellent embedded strategic approach and management focus on the use of natural resources and sustainability. It has had an in-house developed Environmental Management System for a number of years. This allows it to monitor and report outcomes affecting all its areas of operation. The Council is revising its Procurement Strategy to improve its focus on sustainable procurement.

Approach to local value for money work from 2010/11

39 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 options for a new approach to local VFM audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

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

- securing financial resilience; and
- prioritising resources within tighter budgets.

41 I will determine 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 relating to 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 governance report to those charged with governance and in my annual audit letter.

Current and future challenges

42 The recently announced comprehensive spending review anticipates a 26 per cent reduction in government support for local government over the next four years. Much of this will be front loaded in the first two years. The precise impact on New Forest District Council will not be clear until detailed allocations are published later in 2010. However it may potentially reduce grant available to the Council by just over £3 million between 2011/12 and 2014/15. Members have recently been briefed on the headlines from the spending review and the Council's approach to medium term financial planning going forward - setting out the major challenges over the next four years.

43 There will also be other changes in the local government financial regime including local management of housing benefits and radical changes to the Housing Revenue Account.

44 The Council's 2010/11 budget already recognises over £1 million identified efficiency savings, allowing the Council to set a budget of £23.104 million that protects key front-line services without using reserves. The government has already withdrawn more than £0.5 million of the Council's grant funding for 2010/11. Other short-term pressures are more difficult to forecast, although it is clear there will be pressures on income sources, including interest income, and financial risks associated with the transfer of concessionary travel responsibilities to the County Council in 2011/12.

45 The Council is due to publish its updated medium term financial strategy to 2014/15 in January 2011; this will take account of the grant details expected to be released in December 2010.

46 I am satisfied the Council is taking the necessary steps to meet the challenges to its financial stability over the coming years and to ensure it can continue to deliver key services for its residents. Key tasks looking ahead will be to continue to identify savings and to ensure there are robust arrangements in place to deliver them. Councils in Hampshire will also need to consider whether further savings are available from shared services and shared management teams.

Closing remarks

47 I have discussed and agreed this letter with the Chief Executive and the Executive Director (Finance). I will present this letter at the Cabinet meeting on 1 December 2010 and copies will be provided to all Members before 30 November 2010.

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

Report	Date issued
Audit Planning Letter	April 2009
Audit Opinion Plan	February 2010
Interim Opinion Report	March 2010
Annual Governance Report	September 2010
Annual Audit Letter	November 2010

49 The Council has taken a positive and helpful approach to the audit. I wish to thank the Council's staff for their support and cooperation during the audit.

Patrick Jarvis
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£81,950	£81,950	-
Value for money	£37,526	£37,526	-
Total audit fees	£119,476	£119,476	-
Non-audit work	-	-	-
Total	£119,476	£119,476	-

Please note that the fee relating to the certification of the Council's claims and returns is billed to the Council separately. The planned fee for the 2009/10 certification work was £38,869. My 2009/10 grant claim certification work is ongoing, and I will update you on the fee in my grant certification report later this year.

Internal audit have assisted my team in the certification of the Housing and Council Tax Benefit return, and I anticipate this will lead to a reduction in the Council 2009/10 grant claim certification fee

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; and
- whether they have been prepared properly, following the relevant accounting rules.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some material reservations or concerns.

Unqualified

The auditor does not have any material 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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