

ANNUAL AUDIT AND INSPECTION LETTER 2010/11

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 2010/11

- # 2.1 A copy of the Audit and Inspection Letter for 2010/11 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 the Council has received such a complimentary report from the Audit Commission, which supports the Council's approach to managing our affairs. I would like to express my thanks to my fellow Members and to the Officers for their actions and support, which have allowed us to achieve this in the current challenging economic climate.

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 2010/11 be noted.

For Further Information Please Contact:

Bob Jackson
Executive Director
Tel: (023)8028 5263
E-Mail: bob.jackson@nfdc.gov.uk

Background Papers:

Annual Audit Letter

APPENDIX 1

New Forest District Council

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key message	My findings
Unqualified audit opinion	Yes
Proper arrangements to secure value for money	Yes

Audit opinion and financial statements

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

Preparation of the 2010/11 statements was more challenging than normal because of the transition to International Financial Reporting Standards (IFRS). The Council's approved statements met the new requirements.

Value for money (VFM)

I issued an unqualified VFM Conclusion.

It has been another challenging year for councils, seeking to respond to the continuing financial pressures while seeking to preserve 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;
- has maintained its (long term) debt free status, and holds reserves that should be enough to meet unexpected demands on resources and to help deliver corporate priorities; and
- is reinforcing the ongoing need to continue to prioritise where taxpayers' money is spent and deliver further efficiencies in the areas identified within the Council's five workstreams.

Audit closure

I closed my 2010/11 audit of New Forest District Council on 30 September 2011.

Current and future challenges

Historically, the Council has been successful in implementing changes that achieve savings without significantly impacting on service delivery. The Council has continued this in 2010/11, and maintained its track record of operating within its budget with 2010/11, while remaining debt free at 31 March 2011.

The government is continuing its policy of cutting public spending and the impact of this is continuing to dominate the Council's agenda. Having balanced its 2011/12 budget (following the identification of £2.3 million savings), the Council needs to make further savings (gross savings of almost £1.9 million before taking account of Government special grants) to balance its 2012/13 budget. The Council has already identified the majority of the required 2012/13 savings, and specific task and finish groups have been established to identify plans to meet the remaining £0.2 million savings gap). The continuing economic downturn is likely to mean greater pressure, particularly on income streams.

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

- delivering the workstream savings and 'Benefits from Collaboration' set out in its 'Medium term financial plan 2011-2014';
- maintaining the level and standard of services following the 'Back office and support activity reviews' and the 'Service reviews';
- responding to the planned changes to the Housing Revenue Account (HRA) - ensuring the Council's housing stock is self-financing and can service any new debt incurred; and
- using freedoms to amend or drop national targets and develop fewer local, outcome focused targets.

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 to the Local Government Finance system, including the way non domestic rates operate; and
- 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.

The Council clearly understands the significant risks it faces and is taking appropriate action to secure a stable financial position over the medium term. My work in support of 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

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.

Some non material amendments were made to your accounts because of my audit and I reported these (in my Annual Governance Report) to your joint Standards and Final Accounts Committee on 23 September 2011. None of the changes affected the Council's net assets or general fund balance. The matters I identified were not unusual within the general accounts production process and should not create a lasting concern for the Council.

I also identified some improvements to the quality of the financial statements and supporting documentation and I am satisfied that management is taking these on board.

Internal Control

In my Annual Governance Report I identified some opportunities for improvement in the Council's internal controls, particularly within some of the financial reconciliations undertaken during the year and at year end. Management have signed up to an action plan to address the matters raised, and I will follow this up during my 2011/12 audit.

I am satisfied the Council's Annual Governance Statement is compliant with requirements and is consistent with my knowledge of the Council.

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 (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:

- capturing what I knew already from previous years' work, the Audit Commission's VFM profiles, my continuing reviews of minutes and discussions with officers; and,
- 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.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Financial governance at the Council is strong. The Council clearly understands the significant risks it faces and is taking appropriate action to secure a stable financial position. The Executive Director (Finance) is a key member of the leadership team and is actively involved in all business decisions leading the promotion and delivery of good financial management.</p> <p>The leadership team, working with portfolio holders provide constructive scrutiny and challenge on financial matters to ensure arrangements remain robust and fit-for-purpose. Members scrutinise and challenge financial performance.</p> <p>Medium-term financial planning and annual budgeting reflects the Council's strategic objectives and priorities for the year, and over the next few years. The Council has reviewed and updated its medium term financial strategy in light of the current economic climate and the outcome of the Comprehensive Spending Review (CSR) in late 2010. The CSR reduced the Council's grant by £2.7 million over two years (2011/12 and 2012/13), with the majority of the reduction being in 2011/12.</p> <p>The medium term financial strategy covers the Council's overall financial position, and also draws Members' attention to the key matters associated with the Council's HRA. These include the planned changes to the HRA nationally and the overall financial implications for the Council from 2012/13.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>Historically, the Council has been successful in implementing changes that achieve savings without significantly impacting on service delivery. The Council has continued this, while remaining debt free at 31 March 2011. The 2011/12 budget includes £0.2 million savings from the Council's 'Service reviews' workstream, with further savings planned for 2012/13.</p> <p>The arrangements to challenge how the Council sets priorities and delivers effective, economic and efficient services continue to be sound. Aswell as planning to make £1.7 million back office and support savings during 2011/12, the Council also undertook an initial review of its senior management structure; it identified some initial changes (£0.3 million savings forecast). The Council will undertake a further senior management review later in 2011/12.</p>

Criterion**Key messages**

The Council is continuing to work closely with the New Forest National Park Authority and significant savings are anticipated now the two organisations are co-located at the Town Hall in Lymington. These savings represent a significant portion of the 'Benefits of collaboration' workstream over the next couple of years.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Executive Director (Finance). I will present this letter to the Cabinet on 7 December 2011 and a copy will be provided to all Members.

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

Report	Date issued
2010/11 Initial fee letter	April 2010
2010/11 Audit Opinion Plan	February 2011
2010/11 Annual Governance Report	September 2011
2010/11 Annual Audit Letter	November 2011

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

Patrick Jarvis
District Auditor

November 2011

Appendix 1 – Fees

	Actual £	Proposed £	Variance £
Audit fee*	128,204	128,204	-
Non-audit work	0	0	-
Total	128,204	128,204	-

* The Audit Commission is paying a rebate of £8,547 to you.

The fee relating to the certification of the Council's claims and returns is billed to the Council separately. The planned fee for the 2010/11 certification work was £40,467. My 2010/11 grant claim certification work is substantially complete and I will update you on the fee in my grant certification report later this year. Internal audit have again 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's actual 2010/11 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 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 that 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 that 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 that 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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