

Annual Audit Letter

Fareham Borough 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.**

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

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

The Council prepared its accounts well against a challenging background of the transition to IFRS accounting.

Value for money

I issued an unqualified VFM Conclusion.

It has been another challenging year for local authorities, seeking to respond to the continuing financial pressures while preserving 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;
- holds a healthy level of reserves which should allow it to meet unexpected demands on resources and to help deliver corporate priorities; and,
- continues to seek opportunities for improving value for money in its services.

Audit Closure

I closed my 2010-11 audit of Fareham Borough Council on 29 September 2011

Current and future challenges

The Council made significant reductions in its 2010/11 budgets in response to reduced funding from government. Nevertheless spending remained within budgets and the Council was able to add to its reserves at the year end.

The government is continuing its policy of reducing financial support for local government and the impact of this will continue to affect the Council. Having balanced its 2011/12 budget, the Council needs to find another £1.9 million of savings over the next four years to keep its finances in balance. The continuing economic downturn is likely to mean greater pressure, particularly on income streams.

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

- delivering the cash savings set out in the Council's financial strategy;
- maintaining the level and standard of services with reduced workforce capacity following the removal of posts in 2010-11;
- supporting the business community during the early stages of the Solent local enterprise partnership (LEP);
- engaging with residents about proposals for a new community north of Fareham;
- ensuring the Council's housing stock is self-financing and can service any new debt incurred;
- working with partners to deliver the enterprise zone at Deadalus;
- using freedoms to amend or drop national targets and develop local, outcome focused, ones.

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;
- promoting local economic growth, including by opportunities created by the Local Government resource review and in partnership with Solent LEP

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

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.

Despite this pressure, the accounts that I audited were complete and of a good standard.

Some adjustments were made to your accounts because of my audit and I reported these to your Audit Committee on 27 September. Although some were numerically significant, none affected the Council's net assets or general fund balance. I confirmed to the Audit Committee that, in my view, errors of the type I identified were not unusual within the general accounts production process and should not create a lasting concern for those charged with governance.

Internal Control

I reported the outcomes of my assessment of your internal controls twice during the year, in June and September.

Weaknesses reported related to valuation of small parts of your fixed assets and your record-keeping for developer contributions. I am satisfied that your Annual Governance Statement is consistent with my understanding of your controls and procedures. My testing did not identify any exploitation of the issues reported and I am satisfied with your response to date.

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 last year's 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 below.

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>The Council has a track record of strong financial management. Its budget setting and budgetary control arrangements are effective and it is keeping its reserves at a healthy level to help deliver corporate priorities and meet unexpected demands.</p> <p>The Council maintains its practice of;</p> <ul style="list-style-type: none">■ only building savings into future base budgets once delivered in prior years;■ not including one-off or short term extra resources into continuing base budgets; and,■ avoiding using reserves to sustain current revenue spending. <p>The Council responded quickly and decisively to the decrease in government funding, reviewing structures and management arrangements to identify savings while seeking to preserve the level and standard of services. This early action delivered a balanced budget for 2011-12 and provided an early projection of the pressures for 2012-13.</p> <p>Actions taken in 2010/11 included deleting 42 posts from the Council's workforce. This reduces the Council's capacity and increases the risk of failure of previously robust arrangements. To ensure it maintains its current financial resilience, the Council will need to be alert to any emerging risks from reduced staff capacity in key areas of financial control.</p> <p>The Council's financial strategy recognises that more measures are needed to balance the Council's financial projections over the period until 2015-16. Current projections show a revenue gap of £1.9m will need to be addressed by 2015. Over the short term, there are increasing pressures and risks to the delivery of a low or nil council tax increase for 2012-13. Alongside this, there are growing pressures on income and increased demand for services that will continue to need management.</p> <p>Despite the challenges over the longer term, the Council has suitable arrangements in place to achieve financial resilience over the foreseeable future.</p>

Criterion	Key messages
<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 setting priorities within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council continues to deliver services that are well regarded by residents and at a Council Tax level that is the eighth lowest for a District in England.</p> <p>Decentralisation and localism are at the heart of the DCLG's activities and priorities. Following the increased freedoms from external Inspection and Comprehensive Area Assessment (CAA) the Council has made progress in refining its own internal service review processes. It has moved away from a standard method and now seeks to develop a custom-made review tailored to the circumstances of each service. In my view, this is a sensible approach.</p> <p>During 2011 more freedom was also provided to review performance information collected and monitored by the Council. DCLG gave councils the freedom to amend or drop Local Area Agreements, associated targets and many national performance indicators. The Council has recognised this is an opportunity to reduce bureaucracy. The challenge over the next 12 months is to develop fewer, outcome focused, strategic targets measuring what is important to the Council and to its Community.</p> <p>The Council continues to work with partners where it will achieve more for less. So far, eight key partnerships exist, covering areas including waste management, building control, environmental health and economic development. Although some councils use partnerships more extensively, Fareham's is a practical stance based on the benefits of each.</p> <p>In my view, given the above, your arrangements to challenge how you set priorities and deliver effective, economic and efficient services continue to be sound.</p>

Closing remarks

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 on 29 November 2011 and will provide copies to all Members.

More detailed findings, conclusions and recommendations in the areas covered by our 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 – changes you can expect to see	December 2010
Audit Plan Update	June 2011
Annual Governance Report	September 2011
Annual Audit Letter	November 2011

The Council has taken a positive and helpful approach to our 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	Variance
Scale fee	111,240	111,240	-
Non-audit work	-	-	-
Total	111,240	111,240	-

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 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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