

# Annual Audit Letter

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**Winchester City 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 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 8).**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## **Audit opinion and financial statements**

**1** I issued an unqualified audit opinion on your financial statements on 29 September 2010. The accounts were generally well prepared but there remain some opportunities for improving internal control. The Council is making satisfactory progress in implementing International Financial Reporting Standards.

## **Value for money**

**2** I issued an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in the 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 has already identified that it will need to make savings of up to £12 million in the period up to 2010-2015 and it has begun the process of achieving these. The Council also has an extensive capital programme of £34 million over a similar period and this may significantly reduce the Council's reserves.

## Key actions

5 My audit over the last year shows that key actions for the Council are as follows.

- To monitor the implementation of International Financial Reporting Standards and the impact on the resourcing of the finance team.
- To make further improvements in internal control.
- To continue the implementation of its sustainability policies.
- To continue to identify savings and to ensure that there are robust arrangements in place to deliver them.
- To consider other cost effective methods of service delivery to contribute to savings.
- To work with other Councils in Hampshire to consider whether there are further savings available from shared services and shared management teams.
- To keep under review the financing and affordability of its capital programme.

# 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 29 September 2010.**

## Audit Opinion

**6** I issued an unqualified audit opinion on your financial statements on 29 September 2010. There has been a continuing improvement in the quality of the Council's financial reporting particularly in respect of accounting for fixed assets. I reported the detailed findings from my audit to the Council's Statement of Accounts Committee in September 2010.

**7** There were a number of amendments to the accounts following my audit including:

- the restatement of the current pension liability; and
- the addition of a note to explain the valuation basis of future pension liabilities.

**8** The accounts were correctly amended. None of the matters arising from the audit adversely affected the overall financial position of the Council.

## Internal control

**9** I also reviewed the Council's Annual Governance Statement. I was satisfied that it reasonably reflected the Council's circumstances.

**10** In my previous annual audit letter a year ago I commented on weaknesses in internal controls. I am pleased that over the last year the Council has made efforts to address these issues. Recent improvements include the introduction of payroll verification checks, the updating of the authorised signatory list and more effective year-end reconciliations. However there is still more to be done including:

- the introduction of control accounts for subsidiary financial systems such as payroll and accounts payable; and
- better monitoring of reconciliations.

**11** The Council has plans to address these issues in 2010/11 linked to the introduction of the new financial management system.

## International Financial Reporting Standards

**12** International Financial Reporting Standards (IFRS) will be fully introduced to local government accounting in 2010/11. This will bring many changes to all local government bodies including a range of new disclosures and a reclassification of lease arrangements. There is therefore a significant additional task for the Council's finance team as well as some complex accounting requirements.

**13** 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.

**14** The Council is making satisfactory progress locally. It has an appropriate action plan in place and is addressing the key tasks. We made a presentation to the Principal Scrutiny Committee in September 2010 setting out the new requirements. A key task for the Committee going forward will be to continue to monitor the implementation of IFRS and the impact on the resourcing of the finance team. The Council will be implementing a new financial management system during the same period. The effective implementation of IFRS will require the involvement of a number of the Council departments, such as Estates and Human Resources.

# 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.**

## **2009/10 use of resources assessments**

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

**16** However, I am still required by the Code of Audit Practice to issue a value for money 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.

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

## **VFM conclusion**

**18** 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 the relevant criteria to be taken into account for the VFM conclusion at each type of audited body.

**19** The table overleaf summarises my findings for each criteria at Winchester City Council.



Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good Governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	Yes
Workforce	Yes

**20** I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Managing finances

**21** The Council's financial management arrangements have been strengthened in 2009/10. Treasury Management is reported monthly and the financial performance of partnerships is monitored. The Council has managed spending effectively and has sound financial governance and leadership arrangements. There is scope for more scenario planning and further modelling is to be introduced. The Council has demonstrated engagement with stakeholders and shown better use and understanding of costs and performance information.

**22** The strength of these arrangements will underpin your ability to meet challenges to your financial stability over the coming years while maintaining key services to your residents. During this period there is a need for all public bodies to understand the impact of their financial decisions on partnerships and the wider community and public sector. Decisions about resource allocation are best made with a full understanding of their impact on the local public and voluntary sector economies as a whole.

## **Governing the business**

**23** The Council manages procurement well. It focuses on areas of greatest need, supported by a better understanding of the local communities and partners. Local people and suppliers are involved in commissioning and a local procurement partnership is used to benchmark projects to measure value for money. Data quality arrangements are designed to support effective performance management information. This enables members to challenge delivery against service priorities and allows intervention where underperformance exists.

## **Managing resources**

**24** My assessment of the use of natural resources has confirmed the Council is making effective use of its natural resources. Its understanding and measurement of energy use is improving although baseline data is still developing and its plans and strategies are still a work in progress. The Council is committed to a socially responsible approach to procurement and works effectively in partnership to protect the environment.

**25** The Council's aim is to reduce its carbon emissions by 10 per cent in 2010/11 and 20 per cent by 2012. The Council monitors the size of its vehicle fleet and its use of fuel. The Council's main contractor has moved to a blend of ultralow sulphur and biodiesel achieving a 25 per cent decrease in emissions and the new Park and Ride scheme is using more efficient vehicles. Overall the Council's strategic approach to environmental sustainability is developing.

## **Approach to local value for money work from 2010/11**

**26** 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 value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

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

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

**28** 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 report to those charged with governance and in my annual audit letter.

# Current and future challenges

## The public sector economic outlook

**29** Earlier in this I referred to the difficult choices facing the public sector given proposed reductions in public expenditure. 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 Winchester City Council will not be clear until detailed allocations are published later in 2010.

**30** There will also be other changes in the local government financial regime including local management of housing benefits. £641,000 of the Council's grant funding for 2010/11 has already been withdrawn. The Head of Finance has also reported that the change to the level of VAT from January 2011 to 20 per cent will reduce the Council's income from car parking. Income from Land Charges is also set to decrease by an estimated £98,000.

**31** The Council's recently published financial strategy 2011/12 to 2014/15 considered the likely outcome of the Comprehensive Spending Review and presented a series of scenarios. The Head of Finance has forecast a significant funding gap over the medium term. Based on her most likely projections, the Council may need to find savings of more than £12 million over the period until 2014/15. The Council's target for value for money gains in 2010/11 is £1.8 million. Key tasks looking ahead will be to continue to identify savings and to ensure that there are robust arrangements in place to deliver them. Councils in Hampshire will also need to consider alternative ways of service delivery, such as shared services and shared management teams.

**32** The Council also faces pressures on its capital programme and level of reserves. The Council has an approved capital programme totalling £34.4 million over the period to 2013/14, of which £17.4 million is General Fund and £17 million Housing. The 2010/11 capital programme amounts to 53 per cent of this planned spending, some £18.4 million.

**33** Much of the planned spending may be financed from reserves. The Head of Finance has reported that this could lead to a decrease in usable reserves, excluding the General Fund, from £14.2 million at 31 March 2010 to £5.2 million at 31 March 2014. The Council will also need to borrow £11.7 million from either internal or external sources. The Council will need to keep the affordability of this programme under review.

## Closing remarks

**34** I have discussed and agreed this letter with the Chief Executive, Corporate Director (Governance) and the Head of Finance. I will present this letter at the Principal Scrutiny Committee on 15 November 2010 and will provide copies to all Members.

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

Report	Date issued
Audit Plan	Principal Scrutiny Committee 22 June 2009
Opinion Plan 2009/10	Principal Scrutiny Committee 14 June 2010
Annual Governance Report	Statement of Accounts Committee 14 September 2010

**36** The Council has taken a positive and helpful approach to our audit. I wish to thank the 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	103,500	103,500	-
Value for money	30,700	30,700	-
WGA	2,000	2,000	-
<b>Total audit fees</b>	<b>136,200</b>	<b>136,200</b>	<b>-</b>
Non-audit work	-	-	-
<b>Total</b>	<b>136,200</b>	<b>136,200</b>	<b>-</b>

## 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any 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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